

ITEM NUMBER: 17.1

CONFIDENTIAL REPORT

KAURI COMMUNITY & SPORTING COMPLEX – EXPRESSION OF INTEREST RESULTS

Pursuant to Section 83(5) of the Local Government Act 1999 the Report attached to this agenda and the accompanying documentation is delivered to the Council Members upon the basis that the Council consider the Report and the documents in confidence under Part 3 of the Act, specifically on the basis that Council will receive, discuss or consider:

- k. tenders for the supply of goods, the provision of services or the carrying out of works.**

Recommendation – Exclusion of the Public – Section 90(3)(k) Order

- 1** That pursuant to Section 90(2) of the *Local Government Act 1999* Council hereby orders that the public be excluded from attendance at this meeting with the exception of the Chief Executive Officer and Staff in attendance at the meeting in order to consider Report No: 232/19 Kauri Community & Sporting Complex – EOI Results in confidence.

 - 2.** That in accordance with Section 90(3) of the *Local Government Act 1999* Council is satisfied that it is necessary that the public be excluded to consider the information contained in Report No: 232/19 Kauri Community & Sporting Complex – EOI Results on the following grounds:
 - k.** pursuant to section 90(3)(k) of the Act, the information to be received, discussed or considered in relation to this Agenda Item are tenders for the provision of services, being the outcome of the Expression of Interest process undertaken for the Kauri Community & Sporting Complex.

 - 3.** The Council is satisfied, the principle that the meeting be conducted in a place open to the public, has been outweighed by the need to keep the information or discussion confidential.
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Item No: **17.1**

Subject: **KAURI COMMUNITY & SPORTING COMPLEX – EXPRESSION OF INTEREST RESULTS**

Date: 23 July 2019

Written By: Team Leader, Commercial & Leasing

General Manager: City Assets and Services, Mr H Lacy

SUMMARY

Council resolved at its meeting 12 March 2019 (Resolution C120319/1409) to seek Expressions of Interest (EOI) from external providers to operate the Kauri Parade Community & Sporting Complex. The purpose of the EOI was to increase utilisation of the centre and for the provider to develop and offer a range of social, recreational, educational and personal development programs.

As a result of the EOI process, one submission was received from Belgravia Leisure. The submission from Belgravia demonstrated their experience and capacity to: deliver a community development model which will build the social capacity of the City; and maximise the use of the centre through an events and functions strategy albeit at financial cost.

Belgravia Leisure's proposal saw them responsible for managing and operating the public spaces at the centre, but with all operating expenses being met by Council. Revenues generated from operations (estimated at approx \$114,200) would be used to offset some of the additional activation costs. Under Belgravia's proposed 'Fee for Service' operational model, the risk and reward of performance is carried by Council, which is a similar business model for Brighton Caravan Park.

A major difference with the proposed Kauri Pde business model is that a significant portion of available "hire" time has been reserved for "free" community use by existing tenants and Council. This reserve "free" community use time significantly reduces the time available for commercial activities and community activation, which places the Kauri Pde facility at a significant revenue disadvantage to other community centres such as Holdfast Bay Community Centre which has 100% of their facility available for "hire" 100% of the time.

In addition to the private operator activation model, other operational models are available to Council being - 1) Council operate the centre by employing a part time facility manager to drive growth of the centre, and bear the costs of marketing and other corporate overheads; or 2) do nothing and use existing staff to activate the centre.

The current net cost to Council of owning, operating and maintaining the building is approximately \$55,300 per annum.

This report compares options and establishes the benefits and financial implications of engaging Belgravia Leisure to activate the Kauri Parade Community & Sporting Complex. Under the proposed Belgravia operating model, Council would need to subsidise the increased activation of the centre by around \$25,200 pa which would deliver increased recreation and leisure activities for Holdfast Bay residents.

Administration is however seeking Council's approval to engage Belgravia Leisure to manage the Kauri Community & Sporting Complex.

RECOMMENDATION

1. **That Council:**
 - a. enters into a Management Agreement with Belgravia Leisure for a period of two (2) years in order for them to oversee the day-to-day facility management, promotion, marketing and activation of the Kauri Parade Community and Sporting Complex, as per Option 1 in this report;
 - b. that the financial projections proposed by Belgravia be accepted and included in the 2019/20 Operational Budget on the basis that an additional \$30,800 net increase in costs is proposed to further activate the Kauri Community & Sporting Complex.
2. That the Mayor and Chief Executive Officer be authorised to execute and seal any documents required to give effect to this decision.

RETAIN IN CONFIDENCE - Section 91(7) Order

3. That having considered Agenda Item 17.1 232/19 Kauri Community & Sporting Complex – EOI Results in confidence under section 90(2) and (3)(k) of the *Local Government Act 1999*, the Council, pursuant to section 91(7) of that Act orders that the report, attachment and minutes relevant to this item be retained in confidence for a period of 12 months and the Chief Executive Officer is authorised to release the documents when all organisations are informed formally of the council's decision regarding the management arrangements for the Kauri Parade Sports Complex.

This order is subject to section 91(8)(b) of the Act which provides that details of the identity of the successful tenderer must be released once Council has made a selection.

COMMUNITY

Placemaking: Creating lively and safe places

Community: Providing welcoming and accessible facilities
Culture: Providing customer-centred services

COUNCIL POLICY

Commercial Leasing Policy

STATUTORY PROVISIONS

Local Government Act 1999.

Retail and Commercial Lease Act 1995

BACKGROUND

Previous Relevant Reports and Decisions

- Council Report No.: 74/19; Item No.: 17.1, '*Kauri Community & Sporting Complex – New EOI Tender*', 12 March 2019 (Resolution No.: C120319/1409);
- Question on Notice No.: 413/18; Item No.: 9.2.2, '*Kauri Sporting Complex Management*', 11 December 2018;
- Council Report No.: 52/18; Item No.: 17.2, '*Kauri Community & Sporting Complex - EOI Results*', 27 February 2018 (Resolution No.: C270218/1065);
- Council Report No.: 453/10; Item No.: 14.7, '*New Lease Agreement – Holdfast Bay Music Centre*', 12 December 2017 (Resolution No.: C121217/1003);
- Council Report No.: 455/17; Item No.: 14.9, '*New Lease Agreement – Seacliff Tennis Club*', 12 December 2017 (Resolution No.: C121217/1002);
- Council Report No.: 454/17; Item No.: 14.8, '*New Lease Agreement – Seacliff Hockey Club*', 12 December 2017 (Resolution No.: C121217/1001);
- Council Report No.: 349/17; Item No.: 14.6, '*Kauri Community and Sporting Complex - EOI for Operational Management*', 10 October 2017 (Resolution No.: C101017/929);

REPORT

Expressions of Interest

In accordance with Council Resolution C120319//1409, Administration sought Expressions of Interest (EOI) on 15 April 2019 to find an operator to manage and activate the Kauri Community & Sporting Complex. The EOI stated that Council was seeking:

- "1. To engage a professional Facilities Manager / Venue Operator to undertake the management of the Kauri Community & Sports Centre common areas on behalf of the Council. The successful proponent shall have:*
- 1.1 demonstrated experience in managing commercial and/or community sporting facilities;*
 - 1.2 specific industry knowledge that will assist in the promotion and activation of the site; and*
 - 1.3 demonstrated event/function management experience*
- 2. Proposals from parties interested in entering into a management agreement to market, promote and activate the centre primarily between the hours of 8:30 am and 4:00 pm Mondays, Wednesdays, Thursdays and Fridays, but also coordinate and manage private functions, corporate events, and program sporting and community services that may occur outside of the primary times."*

The tender specifically stated that the facility was home to the Holdfast Music Centre, Seacliff Uniting Church Netball Club, Seacliff Tennis Club and Seacliff Hockey Club; all of whom hold individual leases over specific portions of the premises for their exclusive use (including 10 of the 12 tennis courts and the hockey pitch).

A major difference with the proposed Kauri Pde operating model is that a significant portion of available "hire" time has been reserved for "free" community use by existing tenants and Council. Blackout periods from 4.00pm to 6.00pm each week day and from 8.00am to 4.00pm all day Saturday and Sunday have been reserved for exclusive use of the existing tenants. Council has also reserved every Tuesday for Wellbeing programs and approximately 1 night per month for the year for the Let's Eat program.

This "free" reserved time for community and tenant use significantly reduces the time available for commercial activities and additional community activation, which places the Kauri Pde facility at a significant revenue disadvantage to other community centres such as Holdfast Bay Community Centre which has 100% of their facility available for "hire" 100% of the time. The impact is that the fixed costs for further community activation have to be absorbed over a smaller revenue base.

Submission Assessment

Upon close of the EOI, Administration received one (1) submission from Belgravia Health and Leisure Group Pty Ltd.

An assessment panel was established to review the submissions. The panel members included:

- Property Management Officer;
- Manager, Active Communities; and
- Team Leader, Leasing and Commercial.

As only one submission was received (being that from Belgravia), assessment of value for money has been more difficult. The submission was however, compliant and addressed all relevant criteria of the Tender. Belgravia presented a 'customer centric' service delivery model and emphasized their vision to implement innovative programming to ensure all members of the community were catered for. With over 170 facilities under management, Belgravia Leisure are one of the largest commercial operators of leisure facilities in the country. The assessment panel noted good evidence of capability to deliver required outcomes with an environmentally, socially and economically sustainable approach.

Options

Given the quality of the submission, it is appropriate to consider Belgravia as a strong option for the management of Kauri Parade Complex. However due to the cost of the proposal, other alternative (previously discussed with Council) have also been reconsidered.

A second option would be for Council to manage the centre using a directly employed, part-time Centre Manager to develop and market programs, and then to arrange and manage any necessary services such as cleaning and/or catering where these were required. Council has already budgeted for this part-time position within its 2019/20 Operating Budget.

Another option would be to continue management by existing council staff, but the timing and scale of program development and delivery would be restricted to match the available time from this staff member who would predominantly focus on other ongoing duties.

The pros and cons of the 3 models are discussed below:

OPTION 1 - Belgravia Leisure as operator

Benefits provided by Belgravia Leisure

- Strong presence in South Australia and current contracts in neighbouring LGA's, with the ability to leverage existing resources within the Belgravia Leisure network near the City of Holdfast Bay;
- Expertise in developing community programs
- Ability to maximise use of the centre
- Sound experience in deploying comprehensive events strategy, marketing management.

Costings and Operational Model Overview

Belgravia propose a fee for service model, with all operating expenses met by Council and revenues generated from operations offset against these costs.

Under this model, Belgravia's proposal identifies both a fixed management fee (\$11,900) and fixed corporate services charges (\$30,800) and variable costs for other expenses such as staff, cleaning and other maintenance tasks. A detailed revenue and cost statement is included in Table 1.

Belgravia's proposal estimates revenues of around \$114,200 and costs of approximately \$145,000 – meaning that the increased activation would cost Council an additional \$30,800 compared to the current structure.

Costs would be increased by CPI for the second year of the contract.

Furthermore, Belgravia seeks to retain 100% on any betterment beyond the forecast net deficit of \$30,800 for the first term of the agreement. This means that whilst the net deficit could increase, it cannot be reduced. Belgravia has indicated in their submission that revenue figures are not guaranteed. Council carries all commercial risk for the centre and Belgravia would be entitled to their fixed management fee and corporate overhead charge irrespective of revenues received or other operating costs. However this model creates an incentive for Belgravia to achieve higher income in order to achieve a smaller deficit and retain the difference between the forecast and the actual figures.

Belgravia would submit a monthly invoice to Council for their management fees and other expenses (similar model to the Brighton Caravan Park) allowing administration to monitor activities and track progresses.

OPTION 2 - Manage Centre with part time Council employee

The Belgravia option does on-charge significant management and corporate fees to council. Should Council so endorse, an alternative operating model could be for Council to employ a part time Centre coordinator to undertake program development, marketing, managing operational issues and coordinating service/maintenance provision.

Under this model, most corporate overhead costs such as accounting, billing, payroll, HR, marketing and legal would be absorbed by Council, leaving the centre revenues to offset direct operational costs such as staff time, function cleaning, marketing, program development, etc.

This option proposes that the Centre Manager be appointed on a 0.5 FTE basis at or around Level 4 pay scale giving a total employment cost of around \$45,600. This funding is already included in the 2019/20 operating budget.

The role of the Centre Manager would be to:

- Manage day-to-days operation of the facility;
- Develop programs and events; and promote these functional areas of the complex, in conjunction with the marketing department;
- Work directly with other site tenants to build relationships with tenant clubs, other community centres, external sporting bodies and prospective tenants and hirers;
- Identify new business opportunities.

It is anticipated that the level of activation would be lower with a 0.5FTE Centre manager than under the Belgravia model. However costs will also be proportionately lower, meaning that with

a forecast revenue of \$46,400 and forecast costs of \$57,200, the net cost to Council to activate the centre (less quantum of activation than in Belgravia's proposal) would be reduced to \$10,800.

Details of the forecast revenue and costs for Option 2 are included in Table 1.

OPTION 3 – Manage Centre using existing Council Staff

In this option, the centre would be marketed by existing Council staff, with revenues likely to be driven more by a small number of recurring weekly commercial rentals (eg for a commercial karate or fitness training business) and occasional private function/event hire. Casual staff would be employed to open, set up/pack down and close the facility for weekend events with contractors providing catering and cleaning services. Income would be reduced, but costs would also be significantly lower giving a forecast net cost to achieve modest activation of around \$5,600.

Although this option is financially safer in the short term, it was not considered suitable as it relies heavily on existing staff to drive sales and negotiate tenancies and one-off events. It is not considered viable in the long term.

CONCLUSION

If the Centre were operated by Belgravia Leisure:

- With a Fee for Service model and a deficit that cannot be bettered in the first two years, the risk of performance is carried by Council whilst Belgravia Leisure is responsible for managing and operating the venue. A new agreement can be negotiated at the end of the first term, and the operating model reviewed then depending on performance.
- Whilst the projected income is not guaranteed, Belgravia indicated that it is a conservative approach, based on first year performances of similar community centres managed by them.
- Council and local community will benefit from the activation and from the expertise provided by Belgravia. Opportunities to optimise the community value appear greater, with community and commercial programming, private events, kiosk sales and close coordination with existing tenants.
- Space activation and community engagement will be maximised as a result, transitioning Kauri Parade into a lively and accessible community centre.

If the Centre were operated by Council, either under a dedicated Centre manager model or existing business as usual model:

- The function area and meeting room are the primary hireable spaces for any community, private and corporate functions. However, Kauri Parade Complex may not get the focus and specialised expertise it will require to optimise its financial performance or its services to the community. Activation of the premises will be slower.
- It will also add pressure on current corporate functions such as payroll, accounting, billing, finance, marketing and Commercial and Leasing.
- There are no operating costs included in 2019/20 Operating Budget apart from salaries and maintenance, meaning that Council will need to allocate additional funds.

Table 1 - Financial performance of Option:

Estimated Year 1	OPTION 1 Centre operated by Belgravia	OPTION 2 by Council (0.5 FTE)	OPTION 3 Existing Model
CURRENT COMMUNITY USE			
Income			
Wellbeing Program (48 days @ 7hrs/	\$ 33,600	\$ 33,600	\$ 33,600
Lets Eat program (10 nights @ 5 hrs e	\$ 5,000	\$ 5,000	\$ 5,000
Current sporting leases (4 clubs)	\$ 5,589	\$ 5,589	\$ 5,589
	\$ 44,189	\$ 44,189	\$ 44,189
- LESS: Council discount	-\$ 38,600	-\$ 38,600	-\$ 38,600
Net Income	\$ 5,589	\$ 5,589	\$ 5,589
Expenses			
Maintenance Expenses (met by Coun	\$ 41,365	\$ 41,365	\$ 41,365
Other operating costs (met by Council	\$ 19,500	\$ 19,500	\$ 19,500
	\$ 60,865	\$ 60,865	\$ 60,865
Net Profit/(Loss)	-\$ 55,276	-\$ 55,276	-\$ 55,276
ADDITIONAL COMMUNITY ACTIVATION			
Income			
Room Hire (regular - community grou	\$ 25,000	\$ 14,400	\$ 1,200
Room Hire (regular - commercial)	\$ 27,655	\$ 12,000	\$ 9,600
Room Hire (One off functions/confer	\$ 32,727	\$ 18,000	\$ 2,400
Kiosk/catering sales	\$ 27,600	\$ 2,000	\$ -
Merchandise sales	\$ 1,200	\$ -	\$ -
	\$ 114,182	\$ 46,400	\$ 13,200
Expenses			
Costs of sales	\$ 13,296	\$ 964	\$ -
Staffing	\$ 54,248	\$ 42,500	\$ 12,300
Marketing and promo	\$ 6,856	\$ 5,000	\$ 3,000
Cleaning & Operating Expenses	\$ 27,920	\$ 6,740	\$ 3,500
Other Operating Oncosts	\$ 30,771	\$ 2,000	\$ -
Management Fee	\$ 11,881	\$ -	\$ -
Sub total	\$ 144,972	\$ 57,204	\$ 18,800
Net Profit/(Loss)	-\$ 30,790	-\$ 10,804	-\$ 5,600
Projected Annual NET	-\$ 86,066	-\$ 66,080	-\$ 60,876

BUDGET***Current budgeted expenses***

The following table outlines the current forecast revenues and operating expenses for the Centre for the 2019/20 financial year (business as usual):

<u>Revenue – club lease payments</u>	\$ 5,589
<u>Maintenance expenses</u>	
Security	\$ 1,576
Mechanical Services	\$ 6,829
Hydraulic Services	\$ 2,000
Fire Services	\$ 3,677
Lift	\$ 3,151
Cleaning	\$ 18,911
Building Insurance	\$ 5,219
	\$ 41,365
<u>Other Operating Costs</u>	
Fees, rates, taxes	\$ 18,785
NRM Levy	\$ 715
	\$ 19,500
Net Cost	\$ 55,276

It is to be noted that is no other operating costs, such as Marketing, IT or Legal costs budgeted in 2019/2020, and no income either.

Future expenditure

The future cost of activation for Options 1, 2 and 3 are presented in Table 1 and summarised as follows:

Option 1 – Belgravia Leisure as operator	- additional cost to Council \$15,790
Option 2 - Manage with part time Council employee	- additional cost to Council \$10,800
Option 3 - Manage using existing Council Staff	- additional cost to Council \$5,600.

If the centre is operated by Belgravia Leisure as per their proposal and Option 1, the current 2019/20 budget will need to be amended as follows:

- Unbudgeted additional income of \$114,182 will need to be recognised
- Additional costs of \$144,972 will need to be added
- Resulting in a net deficit of \$30,790 in the first year.

LIFE CYCLE COSTS

The agreement with Belgravia would be for an initial period of two years. Financial projections in the second year will be similar with the addition of CPI.

Belgravia's experience in Port Pirie at the Port Pirie Sports Precinct shows that as they grow meetings, bookings and events in a similar function venue there is an opportunity to reduce that Council subsidy over the years.

CONFIDENTIAL

Confidential Minutes of the Ordinary Meeting of Council of the City of Holdfast Bay held in the Council Chamber, Glenelg Town Hall, Moseley Square, Glenelg, on Tuesday 23 July 2019.

17. ITEMS IN CONFIDENCE

17.1 Kauri Community Sporting Complex – Expression of Interest Results (Report No: 232/19)

Motion – Exclusion of the Public – Section 90(3)(k) Order C230719/1563

- 1. That pursuant to Section 90(2) of the *Local Government Act 1999* Council hereby orders that the public be excluded from attendance at this meeting with the exception of the Chief Executive Officer and Staff in attendance at the meeting in order to consider Report No: 232/19 Kauri Community & Sporting Complex – EOI Results in confidence.**
- 2. That in accordance with Section 90(3) of the *Local Government Act 1999* Council is satisfied that it is necessary that the public be excluded to consider the information contained in Report No: 232/19 Kauri Community & Sporting Complex – EOI Results on the following grounds:**
 - k. pursuant to section 90(3)(k) of the Act, the information to be received, discussed or considered in relation to this Agenda Item are tenders for the provision of services, being the outcome of the Expression of Interest process undertaken for the Kauri Community & Sporting Complex.**
- 3. The Council is satisfied, the principle that the meeting be conducted in a place open to the public, has been outweighed by the need to keep the information or discussion confidential.**

Moved Councillor Abley, Seconded Councillor Lonie

Carried Unanimously

Council resolved at its meeting 12 March 2019 (Resolution C120319/1409) to seek Expressions of Interest (EOI) from external providers to operate the Kauri Parade Community & Sporting Complex. The purpose of the EOI was to increase utilisation of the centre and for the provider to develop and offer a range of social, recreational, educational and personal development programs.

As a result of the EOI process, one submission was received from Belgravia Leisure. The submission from Belgravia demonstrated their experience and capacity to deliver a community development model which will build the social capacity of the City; and maximise the use of the centre through an events and functions strategy albeit at financial cost.

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to offset some of the additional activation costs. Under Belgravia's proposed 'Fee for Service' operational model, the risk and reward of performance is carried by Council, which is a similar business model for Brighton Caravan Park.

A major difference with the proposed Kauri Pde business model is that a significant portion of available "hire" time has been reserved for "free" community use by existing tenants and Council. This reserve "free" community use time significantly reduces the time available for commercial activities and community activation, which places the Kauri Pde facility at a significant revenue disadvantage to other community centres such as Holdfast Bay Community Centre which has 100% of their facility available for "hire" 100% of the time.

In addition to the private operator activation model, other operational models are available to Council being –

- (1) Council operate the centre by employing a part time facility manager to drive growth of the centre, and bear the costs of marketing and other corporate overheads; or
- (2) do nothing and use existing staff to activate the centre.

The current net cost to Council of owning, operating and maintaining the building is approximately \$55,300 per annum.

This report compares options and establishes the benefits and financial implications of engaging Belgravia Leisure to activate the Kauri Parade Community & Sporting Complex. Under the proposed Belgravia operating model, Council would need to subsidise the increased activation of the centre by around \$25,200 pa which would deliver increased recreation and leisure activities for Holdfast Bay residents.

Administration is however seeking Council's approval to engage Belgravia Leisure to manage the Kauri Community & Sporting Complex.

Motion

C230719/1564

1. That Council:

- a. **enters into a Management Agreement with Belgravia Leisure for a period of one (1) year plus one (1) year lease in order for them to oversee the day-to-day facility management, promotion, marketing and activation of the Kauri Parade Community and Sporting Complex, as per Option 1 in this report;**
- b. **accept the financial projections proposed by Belgravia be accepted and included in the 2019/20 Operational Budget on the basis that an additional \$30,800 net increase in costs is proposed to further activate the Kauri Community & Sporting Complex.**

2. **That the Mayor and Chief Executive Officer be authorised to execute and seal any documents required to give effect to this decision.**

Moved Councillor Lonie, Seconded Councillor Smedley

Carried

Division Called

A division was called and the previous decision was set aside.

Those voting for: Councillors Snewin, Miller, Bouchee, Smedley, Abley, Chabrel, Lonie and Lindop (8)

Those voting against: Councillors Clancy and Bradshaw (2)

Her worship the Mayor declared the motion

Carried

RETAIN IN CONFIDENCE - Section 91(7) Order

C230719/1565

3. **That having considered Agenda Item 17.1 232/19 Kauri Community & Sporting Complex – EOI Results in confidence under section 90(2) and (3)(k) of the *Local Government Act 1999*, the Council, pursuant to section 91(7) of that Act orders that the report, attachment and minutes relevant to this item be retained in confidence for a period of 12 months and the Chief Executive Officer is authorised to release the documents when all organisations are informed formally of the council's decision regarding the management arrangements for the Kauri Parade Sports Complex.**

This order is subject to section 91(8)(b) of the Act which provides that details of the identity of the successful tenderer must be released once Council has made a selection.