

SJ Community Recreation Centre Management Options

Contract Management Model – Report Option 1

| Ability to Meet Community Needs (3 = Strongest Ability; 1 = Least Ability) | Description of Model and General Comments | Financial Considerations |
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| 2 | <p>Under a contract management arrangement, Council retains overall control of the facility but engages a contractor to manage day to day operations, as opposed to Shire salaried staff. This management model is currently in place at the SJCRC and is recommended both within the Review and by Officers as the model best suited to the SJCRC, Council and local community at this time.</p> <p>Officers recommend the Contract Management model as it best enables the Shire to meet the expectations, priorities and needs of the community, within current risk appetites and financial capabilities of the Shire.</p> <p>Management contracts are generally for shorter periods than a lease (Officers are recommending five years), and as control of the facility is retained Council has the right of entry. This model generally sees lower staffing and on-costs than direct Council management, as the operators are not subject to Local Government Awards or they are large companies with their own greenfield award and work and employment conditions. Economies of scale may also be derived where operators are responsible for more than just the one local venue.</p> <p>As outlined in the Review, the current staff structure demonstrates a lean management arrangement unlikely to be achieved by direct Shire employment. Particularly where</p> | <p>As outlined in attachment 7 to this report, the 2020/21 net cost of the SJCRC to Council (including the management fee and overhead allocations, however excluding costs outside of “ordinary business” such as the Review consultancy) was \$315,647.</p> <p>Based on preliminary end of year data (subject to final auditing due by end October), nearly \$100,000 in surplus is to be shared equally between the YMCA WA and the Shire, to assist in offsetting this cost. If these projections are confirmed, the net cost to Council will be approximately \$265,647.</p> <p>This end of year data has already accommodated outgoings, gym equipment, staffing, financial/management/overhead expenditure, planned preventative maintenance (as per contract provisions) and compliance expenditure. It also incorporates approximately \$90,000 of pathway and lighting works to the external of the building (identified as part of access and inclusion improvements) and replacement of hand dryers (recommended in the annual health and building inspection).</p> <p>The reason for this surplus is the result of the Job Keeper subsidies, which would not have been redeemable under the in-house management model (described below).</p> <p>The recommended Tender process for a 5-year term will provide specific costs to Council, accommodating the vision</p> |

additional resourcing within Departments such as ICT, HR and finance are taken into consideration.

In this model, the risk of fluctuations in net operating costs rests with Council. And as further outlined in the Review, it requires the contract manager (being an Officer or team of personnel) to have a clear understanding of:

- The venue's objectives;
- Responsibilities of the contracted management body vs responsibilities of Shire (being linked to well-articulated and clear contract conditions); and
- Capacity to manage the contractor against these objectives and responsibilities.

Officers support the reasoning articulated under Recommendation Two of the Review that the future management of the SJCRC should be via the current contract management approach. Officers further support Recommendation Three of the Review that proposes a range of changes to the contract in order to realise optimum operational benefits for the community. In particular:

- That the Shire retain all maintenance responsibilities, as the Shire now has capacity and expertise to undertake this function.

The Review has identified that any management model will only be truly effective if Shire invests in and upgrades its facilities in order to re-life SJCRC to be more consistent with contemporary recreation venues.

- Ensure data collection, report generation and membership analysis functions are improved.

The Review outlines that Report templates and requirements should be clearly outlined within the contract specifications, and include the full range of data required from the contractor on an annual basis,

and desired community outcomes determined by Council that the respondent would be required to meet.

Based on historical financial data within the Review (where the management body has recorded a surplus result for four of the past six years – the latter deficit being a direct result of Covid-19), and Officers recommendation to retain control of the facility and programs for community purpose and benefit, this model provides:

1. Lower operational cost and lower operational risk in the current environment, than in-house management.
2. Lower social/community outcome risk (specifically health and wellbeing risk to vulnerable community cohorts), than a lease management model.

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| | <p>in order to undertake a robust analysis of the performance of the SJCRC over the term of the contract.</p> <ul style="list-style-type: none">• That the tender outline a requirement for any successful tenderer to install co-branded signage on the facility and recommends that a budgetary allocation be considered in the budget review processes for improved directional signage at the precinct entry points. <p>The Review recommendations included consideration to more prominent external signage on the external fascia of the building and at the entry to the site (including advance warning signage).</p> | |
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Internal Council Staff Management Model – Report Option 2

| Ability to Meet Community Needs (3 = Strongest Ability; 1 = Least Ability) | Description of Model and General Comments | Financial Considerations |
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| <p>3</p> | <p>Under this model, Council officers are responsible for the day to day management of the Centre, including all programming and services, as well as all the required asset management and maintenance responsibilities.</p> <p>This model has the greatest level of control for the Shire, as it can be linked directly to Council policies and integrated frameworks, it is the model most responsive to “whole of Shire” and Council objectives. This can be particularly important on an annual/fiscal year basis; having the ability to complement a range of scheduled programs, projects and community priorities each year.</p> <p>Given that the Shire would retain complete control, no negotiation or consultation is required to occur with “external” management bodies and the facility can be utilised to meet the needs of the community as determined by the Shire at any given time.</p> <p>This option is the most costly of all models. It also provides the greatest level of operational risk, including exposure to industrial relations and/or human resource management issues and would be expected to have a significant impact on a variety of internal Shire Departments should this be the management model preferred by Council. This impact would pose a significant organisational performance, reputational and financial risk, particularly with the current COVID-19 environment requiring continual “standing down” and “standing up” of operations.</p> | <p><i>* Comments below exclude operational expenses and income for out of school care services. This offering would be removed in an in-house model.</i></p> <p>Officers estimate that based on the same staffing levels currently applied at the SJCRC, 82.5% of the total income derived at the Centre (2020/21 figures) would be consumed in base staff wages. This percentage does not account for applicable penalty rates, allowances or overheads, which will be essential to recognise early mornings, late evenings and weekend work required at a leisure facility. It also does not allow for any increased level of service from that currently provided (such as additional opening times or programs), and similarly does not provide for the increased workloads on other internal departments, including HR, finance, communications and ICT services. In order to accommodate an in-house model, each of these departments would require an increase in resources.</p> <p>In addition to the staffing and other ordinary operational expenditure, the following operational costs would be required to facilitate in-house management:</p> <ul style="list-style-type: none"> • Approximately \$320,000 over 3 years in establishment costs for ICT equipment would be expected at a minimum. • Recruitment of staff and training for compliance purposes, in the vicinity of \$80,000. |

Council managed Centres can also lack the flexibility to operate in a highly competitive leisure services industry and/or requires significant investment to maintain such flexibility. As the SJCRC has an identified weakness in its reliance on revenue from highly competitive service areas such as childcare, for which the Shire has no capability of continuing provision without significant financial investment, this lack of flexibility would further place the Centre at risk of “undetermined” financial deficit.

In a period of hypergrowth and in considering the number of projects listed for development in the Corporate Business Plan and LTFP, Officers consider the risk for in-house management to be outside the acceptable limits without further consideration and business case development to clearly outline expected costs and risks. This is particularly important in an environment where historical income results can not be relied upon as an indication of future trends (Covid-19 impacts).

Although internal management is not recommended at this time, there are a number of improvements proposed within the Review that Officers support implementing. In doing so, the Shire may be much better positioned to consider this model in the future to realise maximum community outcomes in a reduced risk environment.

- All outgoings, such as electricity, water, power, internet.
- All maintenance and asset management responsibilities (outlined within the Building Audit report – specifically all planned preventative maintenance and cleaning. Historically, this has largely been the responsibility of the contracted management body).
- All equipment, such as gym, fitness and sporting equipment.
- Consumables and program/activity expenditure.

On this basis, the Centre is expected to run to a deficit on an annual basis in this model, particularly in the establishment phase.

In order to fully understand and adequately budget for an in-house management structure, Officers recommend that a comprehensive business case occur in the current financial year.

The recommended business case in Option Two would allow for a thorough analysis of staffing costs on a per year basis (including consideration towards an Enterprise Agreement) to occur over the 2021/22 financial year. In order for this business case to be developed, a project within the current Corporate Business Plan would have to be removed. The costs identified in the Business Case would then be incorporated into the 2022/23 (and onwards) budget, Corporate Business Plan and Long Term Financial Plan processes should Council determine to proceed with this model.

Lease Management Model – Report Option 3

| Ability to Meet Community Needs (3 = Strongest Ability; 1 = Least Ability) | Description of Model and General Comments | Financial Considerations |
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| 1 | <p>A lease transfers responsibility for the operation and management of the facility to an independent entity, in return for a fee payable to the Shire. For this reason, the model provides the least ability to meet community outcomes as the operator looks to drive profits for its owners/investors. This may be in the form of increasing membership fees/hire rates; only hosting events and activities that generate profits or memberships; and operating with staffing structures/opening hours justified by patronage and revenue rather than social outcomes. For vulnerable members of the local community (such as those at risk of social detachment and low-income earners), this model would be expected to have the greatest impact.</p> <p>A lease can be structured to provide short, medium, or long-term tenure, the latter generally expected where substantial lessee funded capital works are proposed. Substantial lessee funded capital works typically reduces or negates any lease fee that would otherwise be payable to Council.</p> <p>A market rental valuation for the SJCRC has been undertaken to help determine the financial benefits that may be derived when considering this option. The market rental valuation report (Valuation Report) has been received and is included as attachment 4.</p> <p><i>Officers note that this valuation assumes that the list of defects in the Building Audit (attachment two) has been rectified.</i></p> <p>As outlined within the Valuation Report, only one comparative example of a recreation centre owned by a local government</p> | <p>The valuation report does indicate that a lease arrangement may result in a fee payable to the Shire, in return for sole commercial use from the venue. However, it also outlines that the current market conditions are being impacted by the uncertainty caused by the Covid-19 pandemic resulting in significant valuation uncertainty.</p> <p>Additional staff resources may be required following the outcomes of this process, in order to accommodate the following:</p> <ul style="list-style-type: none"> • Lease negotiations and ongoing management of tenant; • Review of strategies and operational plans impacted by lease model, and updates to these accordingly. • Program and operational budgets that will need to accommodate commercial rates (e.g.: venue hire and Employee Wellbeing program. The cost of the Employee Wellbeing program could represent a cost to Council of approximately \$42,500 based on current numbers, should this program continue under a lease management arrangement). <p>Officers recommend that a Commercial Real Estate Agent be engaged to act on the Shire's behalf in seeking and securing a tenant for the facility. Such agents are well equipped in the negotiation of commercial lease arrangements and understanding the market to access possible tenants.</p> |

entity and subsequently leased by an external party, could be referenced. The tenants for this lease were afforded 10 years rent free in return for capital investment on the ageing facility, which was nearly thirty years old at the time of lease. In referencing this example, the Valuation Report further states:

By managing recreation centres internally, local councils in our opinion are also in a better position to maintain recreational services at affordable prices for local residents. Some councils may view leasing out large recreation buildings to one party as being problematic. Managing recreation centres internally also gives local councils greater quality control in relation to the services they are providing their community.

Other examples provided within the Valuation Report outlined lengthy negotiation processes with potential tenants (up to two years), that resulted in peppercorn lease arrangements.

As outlined in the Review, long term leases also have the potential to remove Council's capacity to undertake other developments over the term of the lease. A negotiation process would be expected where impacts on the lease holders' operations could reasonably be foreseen, and mutually beneficial outcomes may not be reached. This can further result in Council inheriting sub-standard or run-down assets at the end of the lease period.

Officers also anticipate that under this management model the Shire would lose access to the facility for use as an evacuation centre for emergency purposes, without additional cost. This has the potential to leave the Shire without the immediate ability to respond to large and multiple day evacuations and with substandard provision of facilities in the COVID-19 environment. Additional work by Officers would be required (and budget allocations expected) in order to facilitate ongoing emergency arrangements.

It may be possible to structure some continued service/ program provision into the lease conditions; however, this may serve to reduce the market for the leasing of the building and would not

provide flexibility to adapt to changing customer needs and trends.

Leases/sub-leases could be considered by Council for elements/portions of the SJCRC such as the café or gym services, but these would need to be attractive to the potential operator. The Valuation Report indicates:

- *Given the requirement for a private operator to access areas within the property likely to be viewed as forming part of common use areas, it would be difficult to find a third party who had the capacity to lease these areas for commercial purposes; and*
- *The cafe would be unlikely to attract a commercial operator due to patronage numbers.*

Officers further note that although the valuation has considered shared use of the carpark area, this too would likely be deemed a “common use area.” As such, management of this space would be challenging under a lease model and additional Shire resources would likely be required to establish and manage this model going forward (additional FTE).

Leasing the facility in its entirety, or as a portion is not recommended by Officers. Although this model may result in a financial gain for the Shire (either directly or via capital investment), this would be at the expense of social and community welfare outcomes, not prioritised by private operators.

Officers recognise that leasing of the facility may be a viable future option when other similar facilities are available in the Shire, however consider that as this is currently the only facility of its type in the Shire, a lease of this type presents a significant risk to community accessibility to the programs and infrastructure provided by the facility.

If Council determine this is the preferred option Officers recommend undertaking a period of community consultation prior to making a final decision regarding this option. A lease of

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| | <p>the facility by an external party will result in the Shire having less control over the operations of the SJCRC as detailed in this report and attachments, which may result in a reduction or withdrawal of services to the community. Given this, Officers consider it is important to consult with user groups of the facility and wider community to understand their views in regard to this method of operation of the Centre, prior to Council making a final determination on this option.</p> | |
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