



Business Plan

**For Leasing and Outsourcing the Operations and
Management of the City of Joondalup's
Three (3) Leisure Centres
Craigie, Sorrento Duncraig and Ocean Ridge**

December 2000

INTRODUCTION

This business plan is prepared to comply with the provisions of Section 3.59 of the Local Government Act 1995 and the Local Government Act (Functions and General) Regulations 1996.

This section of the Act provides that all **major land transactions**, which by definition includes **leasing** land to another party, requires a business plan to be prepared prior to entering into the transaction (lease). It is the City's intent to outsource the operations and management of the city's three leisure centres and to provide the operator tenure over the facilities by way of a commercial lease of the premises. The lease agreement includes special conditions pertaining to the delivery of services, the setting of fees and charges and the protection of existing client groups to ensure adequate and effective delivery of leisure services from the city's 3 leisure centres to the community.

TITLE PARTICULARS

The lease will apply to the land and the facilities thereon generally known as and comprising the Craigie Leisure Centre, the Sorrento Duncraig Leisure Centre and the Ocean Ridge Leisure Centre. Care, control and management of the land rests with the City of Joondalup pursuant to Management Orders issued by authority of the Minister for Lands.

The land is described variously as:

- (a) part of Reserve N^o 32380, being portion of Swan Location 8913 and being part of the land the subject of Management Order N^o H398884 (CLR Volume 3110 Folio 583);
- (b) part of Reserve N^o 32858 being portion of Swan Location 8889 and being part of the land the subject of Management Order No H389103 (CLR Volume 3110 Folio 599);
- (c) part of Reserve N^o 34330, being portion of Swan Location 9541 and being part of the land the subject of Management Order N^o H417738 (CLR Volume 3047 Folio 567).

Full details and diagrams of the land to be leased are shown as an attachment to this document.

EFFECT ON THE PROVISION OF FACILITIES AND SERVICES BY THE LOCAL GOVERNMENT

There will be little or no discernible effect on the provision of facilities and services by the City. The City of Joondalup has historically provided leisure services to the community from its leisure facilities through direct management (ie Council staff operating the facilities) or through a community recreation association management model.

Outsourcing the management services for the city's three leisure centres will not alter the number or extent of facilities or services provided by the local authority to the community. Rather it is an attempt to improve the quality and cost effectiveness of the services delivered and to ensure they are more attuned to the community's needs.

EXPECTED EFFECT ON OTHER PERSONS PROVIDING FACILITIES AND SERVICES IN THE DISTRICT

The city's three leisure centres have been in operation since the mid 1980's and are well established in the market place. Craigie Leisure Centre was once regarded as the one of the premier facilities in the State, however, this mantle has been lost over time with the development of newer, more elaborate and expansive facilities. One of the tasks required of the new operator (lessee) is to introduce a new branding concept for the centres (called LifeZone) and to reposition the three facilities in the market place with an aggressive marketing campaign.

Likely impacts on other providers will be a greater degree of competition in the market place and elevated service standards.

EXPECTED FINANCIAL EFFECT ON THE LOCAL GOVERNMENT

At present, the City of Joondalup operates all three leisure centres with in-house management. All revenues and expenditures are received and disbursed by the Council. A market testing exercise has been conducted to determine the potential for improvement under a revised in-house management operation to determine a base line for likely costs to present these facilities and their services to the community. The study indicated operating losses in the vicinity of \$500,000 to \$750,000 annually would be likely for the revised in-house operation. These losses include both trading losses and corporate overheads. Over a ten year period, (the term of the lease), the cost of maintaining in-house operations is estimated to be in excess of \$5 million.

The selected operator (RANS Management Group) has offered to meet all operating costs, suffer any operating loss and to pay to the City an annual income comprising a base rental and a percentage rental based on gross income. Additionally, the operator has offered to contribute to capital improvements at the Craigie Leisure Centre in the sum of \$1,180,000, inclusive of finance costs. The City will however incur a one off redundancy payment to dislocated staff as a result of the outsourcing of approximately \$340,000.

The Base Rental and Percentage Rental income projections are shown below:

Year	Base Rental	Percentage Rental	Estimated % Income
1	\$0	0.25%	\$7,876
2	\$130,000	0.5%	\$16,009
3	\$150,000	1.5%	\$55,779
4	\$175,000	2.0%	\$58,011
5	\$200,000	2.0%	\$60,331
6	\$200,000	2.5%	\$62,744
7	\$200,000	2.5%	\$65,254
8	\$200,000	3.0%	\$67,864
8	\$200,000	3.0%	\$70,578
10	\$200,000	3.0%	\$73,402
TOTAL	\$1,655,000		\$537,848
GRAND TOTAL	\$2,192,848		

The impact of the proposed lease is to replace the projected operating loss of roughly \$500,000 annually (say \$5 million over the term of the lease) with an estimated rental income

of \$2.2 million and a capital contribution of say \$850,000 (being the net effect of a \$1.18 million contribution less the finance costs). Overhead costs such as contract management, building insurance and depreciation of approximately \$440,000 annually would still be borne by the City, as would all major and structural repairs to the facilities. Under the terms of the lease, the base rental would be set aside for facility improvements to ensure the centres are kept up to date.

EXPECTED EFFECT ON MATTERS REFERRED TO IN THE LOCAL GOVERNMENT'S CURRENT PRINCIPAL ACTIVITIES PLAN PREPARED UNDER SECTION 5.56

Section 5.56 of the Local Government Act relates to the Principal Activity Plan for the City for the ensuing 5 year term. The published Principal Activity Plan for the City of Joondalup for Leisure Services for 2000/2001 to 2004/2005 states the following:

Key Objectives:

- ◆ To ensure a wide range of affordable and accessible programmes are available to address the recreational, sporting and cultural needs of the community.
- ◆ To ensure the benefits of leisure, for and to the community, and all services, programmes and facilities are known to a maximum number of residents and visitors.
- ◆ To ensure the provision of services, facilities and programmes where there is a proven need based on valid research and assessment.

Activities to be undertaken by the Leisure Services unit to achieve these objectives are listed as follows:

- ◆ Manage and provide a diverse range of leisure opportunities such as leisure centres and recreation and cultural programs for groups such as seniors and young people. These initiatives facilitate quality of life, community participation and celebration, and personal and community development;
- ◆ Support and encourage active lifestyles, personal expression and the development of a cultural identity through equitable access to available resources;
- ◆ Improve organisational infrastructure and implement further change in organisation culture to deliver high quality customer service;
- ◆ Increase service levels in the areas of club development and services to young people and seniors through the development and delivery of programs which achieve the physical, social, cultural and intellectual well-being of the community, both local and regionally; and
- ◆ Enhance the City's profile as a leader in the region by facilitating ongoing discussion with other service providers, establishing a community calendar of events and continuing to be pro-active in the planning, management and assessment of proposed facilities and services throughout the region.

Performance measures for the Leisure Services business unit of the City include service satisfaction levels and the CERM benchmark measurement against the two key indicators for leisure centres being visits per metre and expense recovery.

Outsourcing the operational management of the City's three leisure centres is supportive of the objectives for the Leisure Services business unit and the activities proposed in the Principal Activity Plan are consistent with outsourced management. In fact, the

responsibility of the Leisure Services business unit is to offer opportunities in a much broader context than simply through the leisure centres. It is argued that by inviting professional facility managers to operate the leisure centres and establishing a partnering approach with the operator to integrate all leisure service provision in the City, a much greater impact will be possible. Replacing day to day management responsibility of the centres with one of contract management will give Leisure Services staff the opportunity to develop a broader range of programs and services focussing on areas outside the centres.

The key performance indicators of service satisfaction and the CERM measurements remain valid under outsourced management. Service delivery to the community is what is important, not necessarily who delivers it.

ABILITY OF THE LOCAL GOVERNMENT TO MANAGE THE UNDERTAKING OR THE PERFORMANCE OF THE TRANSACTION

The City of Joondalup has been operating the leisure centres since their inception over 15 years ago. The City has proven it is a competent facility manager with an understanding of the requirements of facility management and leisure service provision. It has an adequate technical understanding to enable assessment of the operator's performance against the terms of the lease and its special management conditions.

The proposed lease between the Council and RANS Management Group establishes a detailed reporting regime and a Leisure Centre Reference Group to address strategic planning and management issues. This reference group comprises elected members and officers of the Council, together with representatives of RANS Management Group.

The City ordinarily administers many land transactions and contracts in the day to day management of its assets and community facilities. The skills of its members and officers are adequate to meet the requirements of this proposal.

LEISURE CENTRE PLANS

(to be included)