City of Joondalup

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Craigie Leisure Centre

25/03/2015

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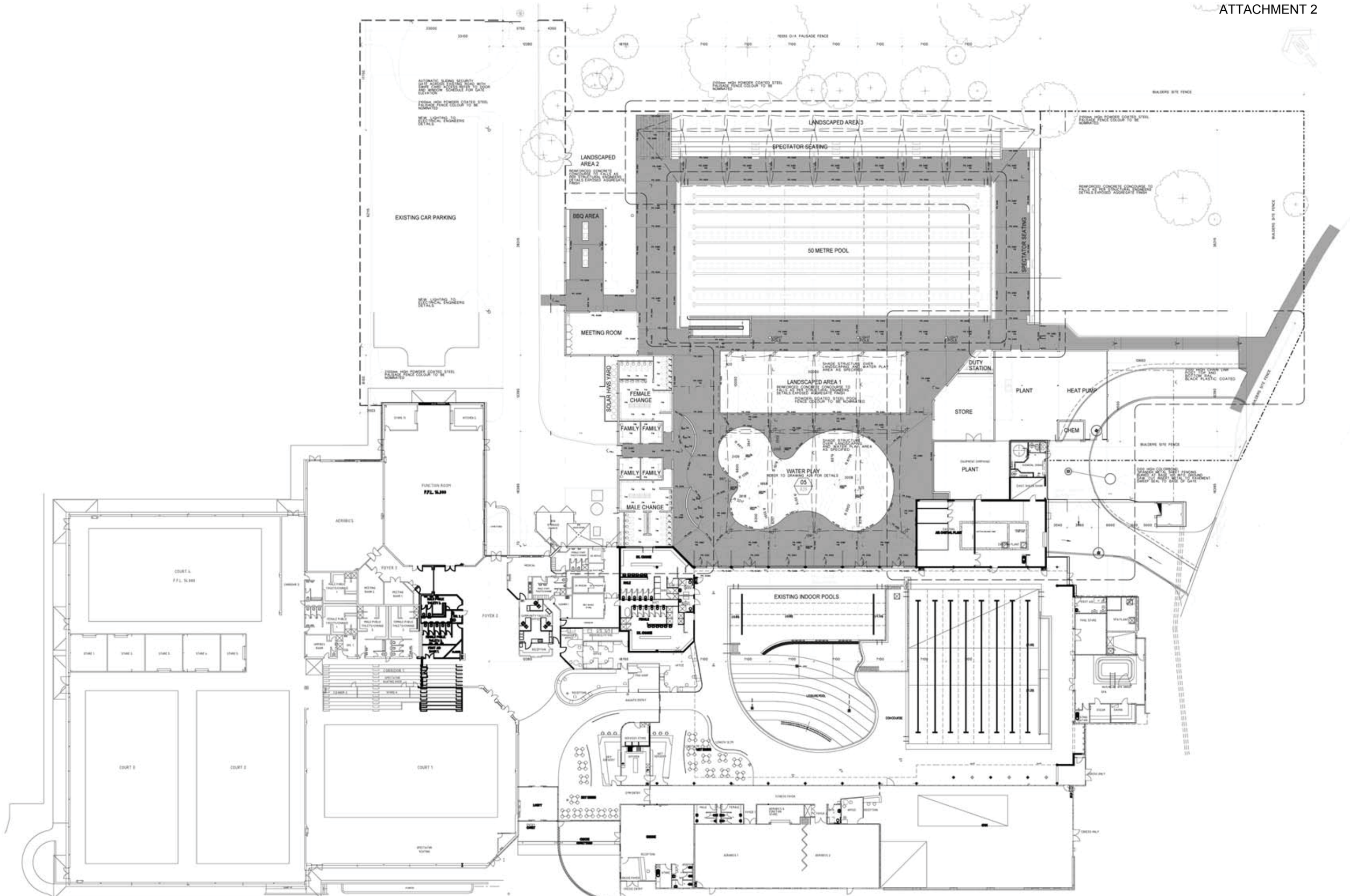


CRAIGIE LEISURE CENTRE

NOT TO SCALE

20m
18m
16m
14m
12m
10m
8m
6m
4m
2m
0

EX. EXTERNAL MULTIPURPOSE SPORTS SURFACE

STORE 57.9 m²

GROUP FITNESS 1 413.7 m²

GROUP FITNESS 2 211.8 m²

MEETING ROOM 80.1 m²

STORE 29.5 m²

MEZZANINE OFFICES 109.4 m²

MANAGERS OFFICE 23.3 m²

MEZZANINE LEVEL
1 : 200

STAFF ROOM 72.9 m²

MALE CHANGE TOILETS AND SHOWERS 102.5 m²

BABY CHANGE 17.7 m²

FIRST AID 11.3 m²

FEMALE CHANGE TOILETS AND SHOWERS 99.6 m²

ACCESS TO EXTERNAL PLAY COURT

SPIN ROOM 68.5 m²

STORE 11.5 m²

WAITING 16.8 m²

EXISTING AQUATIC CHANGE ROOMS

CONSULT. 22.5 m²

CONSULT. 22.2 m²

CONSULT. 21.8 m²

CONSULT. 19.3 m²

BACK OFFICE 13.5 m²

STORE 10.2 m²

RECEPTION 26.2 m²

PRO SHOP 2035.2 m²

AQUATICS OFFICE 59.8 m²

EXISTING LEISURE POOL

EXISTING 25m POOL

EX. SPA

EX. STEAM

EX. SAUNA

UAT 13.2 m²

ENCLOSED OUTDOOR SPA AREA 52.9 m²

EX. SPORTS COURT 2

EX. SPORTS COURT 1

EX. STORE

EX. CAFE

EX. CAFE

EX. KITCHEN

GYM ACCESS

EGRESS

EGRESS

GYM ENTRY

MAIN ENTRY

CAFE COURT

FORECOURT

CONTROL/ PRAMS 17.8 m²

CRECHE 116.7 m²

UAT 10.8 m²

UAT 10.9 m²

STORE 17.6 m²

APP 1 11.1 m²

APP 2 10.8 m²

WAITING 18.9 m²

OFFICE 37.2 m²

RECEPTION 19.1 m²

GYMNASIUM 783.3 m²

CLK 4.1 m²

FEMALE CHANGE 81.3 m²

MALE CHANGE 65.8 m²

STORE 9.1 m²

TOILET 12.4 m²

EXTERNAL PLAY 87.6 m²

STORE 45.5 m²

EXTERNAL FITNESS/ GROUP TRAINING 225.3 m²
30.0m CLEAR

GYMNASIUM EXTENSION 189.0 m²

FOOT PATH

FOOT PATH

MODIFIED CARPARKING

CITY OF JOONDALUP | CRAIGIE LEISURE CENTRE REDEVELOPMENT OPTIONS | SK01 | MASTER PLAN | 02/03/2017 12:09:27 | donovan payne

ATTACHMENT 4

CRECHE OUTDOOR AREA 143.8 m²
CRECHE STORE 44.1 m²
STORE 3 25.7 m²
STORE 2 25.7 m²
STORE 1 25.7 m²
BABY AREA 15.1 m²
CRECHE 162.2 m²
GROUP FITNESS STUDIO 399.2 m²
CRECHE RECEPTION 8.9 m²
CRECHE KITCHEN 8.8 m²
CRECHE TOILET 12.9 m²
CRECHE CONROL 12.1 m²
NEW CORRIDOR ACCESS
STAFF ROOM 30.1 m²
FEMALE
FIRE SHUTTER
STAIR ACCESS TO MEZZANINE LEVEL
FIRE DOOR
SPECTATOR SEATING
EX. SPORTS COURT 1
CYCLE STORE 11.3 m²
CYCLE STUDIO 76.1 m²
NEW DOOR
EXISTING AQUATIC CHANGE ROOMS
POSSIBLE CONNECTION
AQUATICS OFFICE 83.0 m²
D/A ACCESS
CONTROL
EX. STORE
EX. CAFE
EX. CAFE
EX. KITCHEN
EXISTING LEISURE POOL
EXISTING 25m POOL
EX. SPA
EX. STEAM
EX. SAUN
GYM ACCESS
GYM ENTRY
EGRESS
REC. 11.8 m²
OFFICE 33.9 m²
APP 1 10.0 m²
APP 2 10.0 m²
WAITING 33.5 m²
GYMNASIUM 682.6 m²
FREE WEIGHTS 100m²
MAIN ENTRY
REMOVE EXISTING GATE. NEW FIRE ESCAPE DOOR INSTALLED
FORECOURT
WELLNESS STUDIO 227.0 m²
UNI 1 14.0 m²
SMALL CHANGE 8.8 m²
UNISEX CHANGE 64.1 m²
STORE 29.3 m²
GYM STORE 52.5 m²
KINESIS 34m²
OMNIA 42m²
STRETCHING AREA 80m²
RUNNING TRACK 69m²
FUNCTIONAL TRAINING 152m²
FOOT PATH
FOOT PATH
RAMP 1:14 TO CARPARK
NEW HANDRAIL POSSIBLE
PATH LEVEL SAME HEIGHT
x01 x02 x03 x04 x05 x06 x07 x08 x09 x10 x11 x12 x13 x14 x15 x16 17

STORE 3
21.5 m²

STORE 2
21.3 m²

STORE 1
21.5 m²

GROUP FITNESS STUDIO
338.6 m²

ICS STUDIO
06.7 m²

x01 x02 x03 x04 x05 x06 x07 x08 x09 x10 x11 x12 x13 x14 x15 x16 17

FIRE SHUTTER

NEW DOOR

EXISTING AQUATIC CHANGE ROOMS

POSSIBLE CONNECTION

AQUATICS OFFICE
83.0 m²

EXISTING LEISURE POOL

EXISTING 25m POOL

EX. SPA
89.1 m²

EX. STEAM
9.6 m²

EX. SAUNA
12.0 m²

STAIR ACCESS TO MEZZANINE LEVEL

FIRE DOOR

SPECTATOR SEATING

D/A ACCESS

CONTROL

EX. STORE
15.8 m²

EX. CAFE
26.0 m²

EX. CAFE
25.8 m²

EX. KITCHEN
28.5 m²

EX. SPORTS COURT 1

GYM ACCESS

EGRESS

EGR

GYM ENTRY

REC.
11.8 m²

OFFICE
33.9 m²

FEMALE A/L
5.9 m²

UNI 1
14.0 m²

MALE A/L
4.6 m²

APP 1
10.0 m²

APP 2
10.0 m²

WAITING
33.5 m²

REMOVE EXISTING GATE. NEW FIRE ESCAPE DOOR INSTALLED

MAIN ENTRY

EX. CRECHE
104.7 m²

FEMALE CHANGE
56.9 m²

MALE CHANGE
64.1 m²

EX. STR
9.2 m²

EX. WC
12.4 m²

GYMNASIUM
682.6 m²

FREE WEIGHTS
100m²

FORECOURT

KINESIS
34m²

CL
2.4 m²

GYM STORE
81.5 m²

OMNIA
42m²

STRETCHING AREA
80m²

EXTENDED GYM
515.0 m²

RUNNING TRACK
69m²

FUNCTIONAL TRAINING
152m²

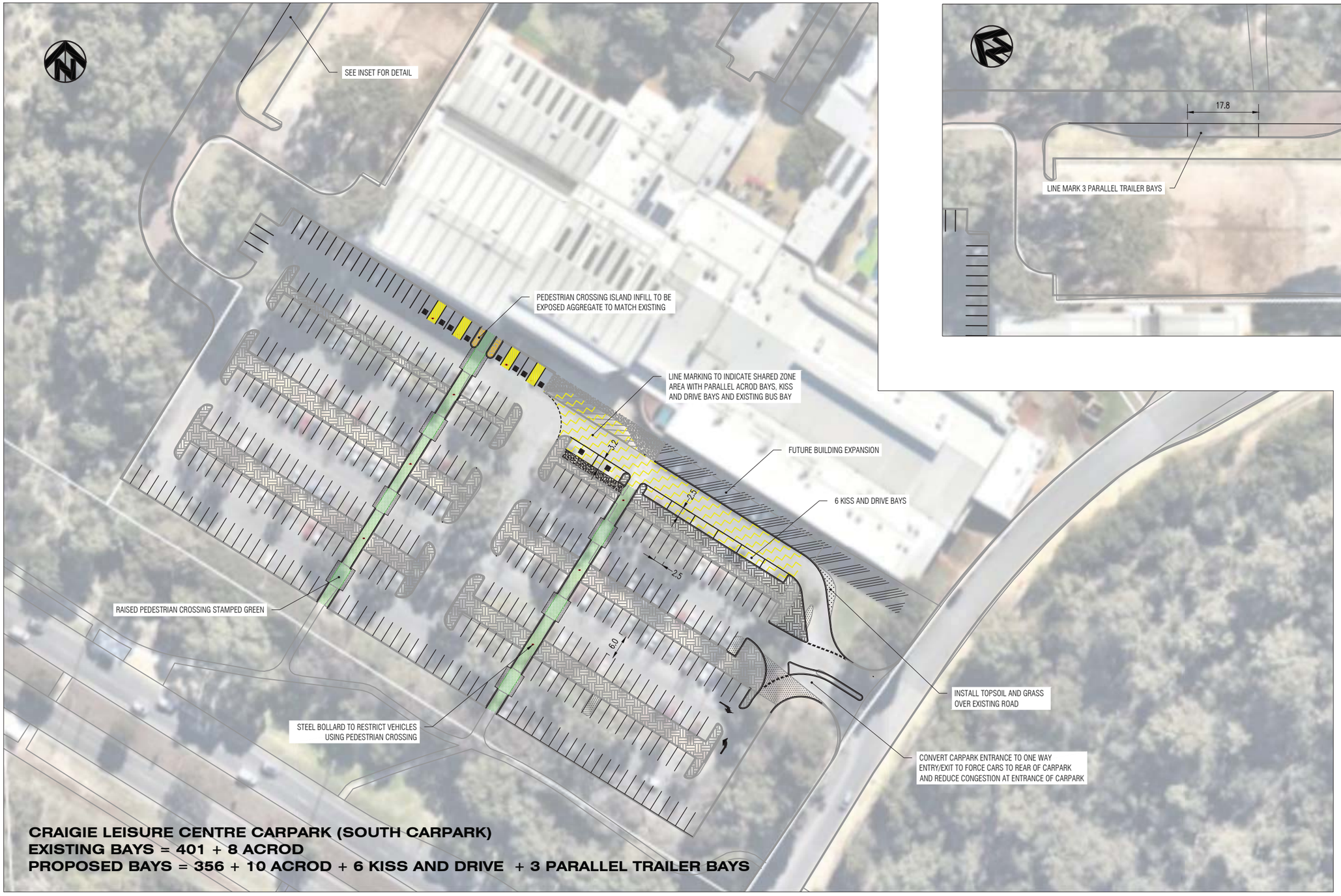
FOOT PATH

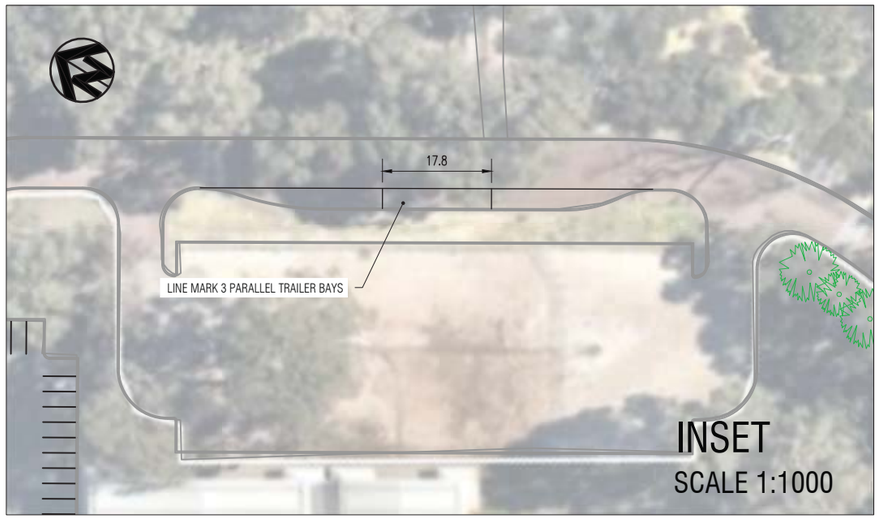
FOOT PATH

RAMP 1:14 TO CARPARK LEVEL - SHADED ORANGE AREA

NEW HANDRAIL - POSSIBLE ARTWORK LOCATION -

PATH LEVEL SAME HEIGHT AS BUILDING LEVEL -





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CRAIGIE LEISURE CENTRE

CARPARK UPGRADE

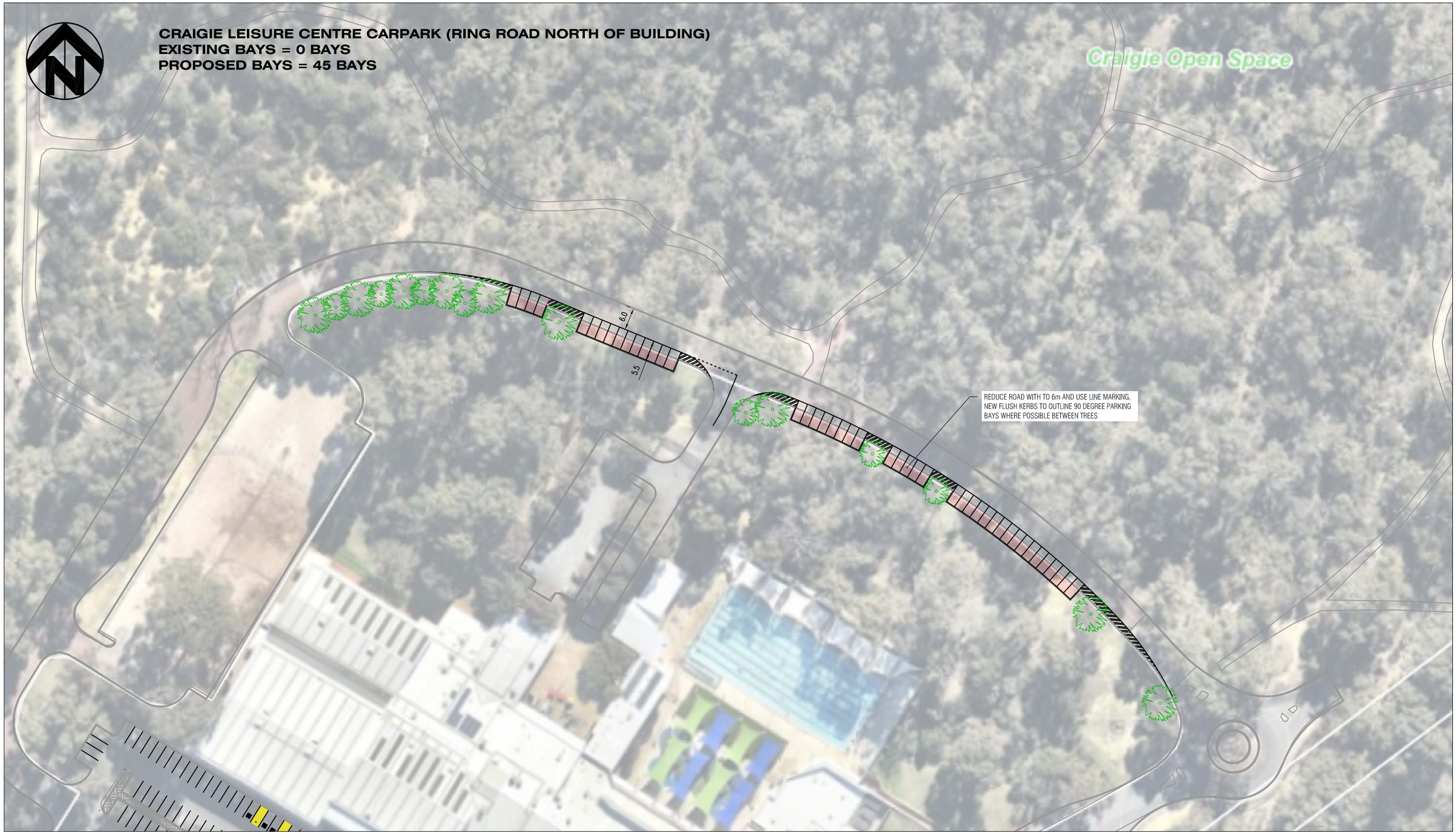
CONCEPT PLAN - SOUTHERN CARPARK

CRAIGIE

CITY OF JOONDALUP

MCP CONCEPT-00

CRAIGIE LEISURE CENTRE CARPARK (RING ROAD NORTH OF BUILDING)
EXISTING BAYS = 0 BAYS
PROPOSED BAYS = 45 BAYS



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CRAIGIE LEISURE CENTRE

CARPARK UPGRADE

CONCEPT PLAN 2 - 90 DEGREE BAYS

CRAIGIE

CITY OF JOONDALUP

MCP CONCEPT-02

OPINION OF PROBABLE COST

PROJECT: COJ Craigie Leisure Centre Refurbishment **Itemised costs - Rev 5**

Item	Description	Qty	Unit	Rate	Total
	ITEMISED COSTS				
	Costs including preliminaries, design contingencies, building contingencies, escalation and professional fees:				
1	Creche (including outdoor area and store)				1,056,420
2	Staff room				288,070
3	Fitness studio (including stores)				921,010
4	Cycle studio (including store and emergency exit works)				295,830
5	Wellness studio (including store)				830,500
6	Change rooms (male/female/UAT)				920,420
7	Gym store / cleaners				142,300
8	Gym appraisal rooms				61,200
9	Gym reception and office, including IT equipment				304,000
10	Gym				2,972,330
11	Staff carpark modification				7,620
12	Overflow carpark formalisation				446,250
13	Main entry works and new path in front of gym				48,310
14	Southern car park modification				139,370
15	Northern ring road parking				84,870
16	Artwork				71,000
17	Approvals, insurance and administration				40,500
					8,630,000

OPINION OF PROBABLE COST

PROJECT: COJ Craigie Leisure Centre Refurbishment **Itemised costs**

Item	Description	Qty	Unit	Rate	Total
	ITEMISED COSTS				
	Costs including preliminaries, design contingencies, building contingencies, escalation and professional fees:				
1	Creche				105,660
2	Group fitness studio				656,360
3	Change rooms (male/female/UAT)				992,910
4	Gym store / cleaners				174,440
5	Gym appraisal rooms				63,910
6	Gym reception and office, including IT equipment				315,260
7	Gym				3,279,620
8	Main entry works and new path in front of gym				57,830
9	Southern car park modification				92,510
10	Artwork				50,000
11	Approvals, insurance and administration				43,500
					5,832,000

pracsys.

CITY OF JOONDALUP

Craigie Leisure Centre Refurbishment Project
Social and Economic Return on Investment

OCTOBER 2018

Document Control				
Document Version	**Description**	**Prepared By**	**Approved By**	**Date Approved**
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v 1.1	CLC Refurbishment Social and Economic Return on Investment	Lucy Heales	Dawson Demassiet-Huning	22 October 2018
v 1.2	CLC Refurbishment Social and Economic Return on Investment	Lucy Heales	Lucy Heales	26 October 2018

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1 EXECUTIVE SUMMARY

The City of Joondalup (the City) is proposing to upgrade the Craigie Leisure Centre (the Centre). The upgraded facility will address many challenges and opportunities the Centre currently faces including limited capacity in income generating areas. It is estimated the upgrades will cost in the region of $7.6 million and will require a significant amount of funding from the City over two phases.

The project evaluation has suggested that the upgraded facility has the potential to bring significant economic and social benefits to the community, during both Phase one and Phase two. Please note that some benefits accounted for in Phase one are supported through activities that are planned to be undertaken during Phase two. For example, change room refurbishment and creche expansion will help to attract and retain additional participants that the Centre can accommodate due to the gym expansion undertaken during Phase one.

Benefit		Present Value
PHASE ONE		
	Continuous health benefits	$5,122,000
	One-off health benefits for new participants that are currently inactive	$909,000
	Productivity benefits for new members that are currently inactive	$12,989,000
	Additional operating revenue	$7,699,000
Total Phase One		***$26,719,000***
PHASE TWO		
	Continuous health benefits	$399,000
	One-off health benefits for new participants that are currently inactive	$312,000
	Productivity benefits for new members that are currently inactive	$4,264,000
	Human capital uplift benefits to children and juniors	$354,000
	Personal satisfaction from being part of a sports team	$1,771,000
	Additional operating revenue	$3,023,000
	Sense of Community	Qualitative
Total Phase Two		***$10,124,000***

The project is expected to generate nine direct FTE positions and 28 indirect FTE positions over the construction period. The NPV of the project is $26 million and the BCR of 3.47 indicate that the project has the potential to yield a significant return on investment.

2 INTRODUCTION

The Craigie Leisure Centre provides a wide range of sports and recreation facilities, including:

- Group fitness
- Creche
- Gym
- Indoor sports courts
- Cycling room
- Aerobics group training area
- 25 m indoor lap pool
- Indoor leisure pool
- 50 m outdoor lap pool
- Spa, sauna, steam room
- Zero depth water playground

The Centre is located on Whitfords Ave and services a catchment of approximately five kilometers (Figure 1).

Figure 1: Craigie Leisure Centre Catchment

Source: Google Maps 2018

The Centre has undergone several refurbishments and extensions since its development and now provides a uniquely diverse offering of both wet and dry facilities for its catchment. The City, through its management of the Centre, is recognised as an industry leader in the provision of community leisure and aquatic facilities and services. The operating surplus that the Centre achieves each year is well above the industry average. However, the facility has faced some challenges in recent times, reaching capacity in key growth areas such as gym users, group fitness classes and court sports. To remain competitive and continue to drive financial performance the City has investigated options for further refurbishment and redevelopment of the Centre.

The project has been proposed in two phases with the first phase costing approximately $2.7 million and the second phase costing approximately $4.9 million. The City has approved the first phase of the project and will consider the approval of the second phase in future. Given the significant funding that is required for the project the City has decided to investigate the potential social return. This report analyses the social and economic benefits associated with the project and uses an Economic and Social Return on Investment Analysis to estimate its value statement.

3 NEED FOR THE PROJECT

3.1 Challenges

The City engaged a consultant to undertake an operational review of the health and fitness operations at the City's leisure centres (Craigie, Heathridge and Duncraig) in response to a shortfall of projected income during the 2014-15 budget review process. One of the outcomes of the review included considering a redevelopment of the Centre to capitalise on industry trends and maximise income opportunities as the existing facility does not meet the growing needs of the local community and the significant changes within the health and fitness industry.

Following the operational review, an action plan was developed and a number of recommendations were agreed to be implemented, one of which was to undertake a needs and feasibility study including consideration of a long-term masterplan for the Centre.

The study was completed in mid 2016 and the challenges identified include:

- Gym size
- Dated facilities
- Crèche utilisation
- Outdoor sport and Team sport capacity (particularly for junior soccer)
- Aging population and Growth in key activities (cycling, fitness, group training)
- Noise problem for the foyer/café
- No opportunities to lease commercial space
- Insufficient overflow carparking

Gym Size

The gym was built in 2005 and was considered large at the time with a floor area of approximately 460 m^2. The gym has been very popular and has grown to be one of the main income drivers for the facility. There has been a slight decline in membership fees and a sharp decline in personal training revenue in the past few years with the gym's size limiting capacity and training programs, and competition developing in the form of four 24-hour gyms within the Centre's catchment[1]. The Centre currently has 3,500 members with an estimated capped membership capacity of 3,700 persons, a utilisation rate of 95%. Feedback received from customers indicates a need for a greater variety of equipment and training opportunities. The Needs and Feasibility Study identified the need to expand the gym in order to provide the capacity for membership growth and the selection of gym equipment that could meet the changing expectation of users. The project will locate the gym in a more suitable location and more than double the floorspace. This will create an attractive space that can support the diversity of equipment that is needed for the gym to attract and retain members.

[1] CLC Needs and Feasibility Study 2016

Dated facilities

While the Centre has been refurbished multiple times since its construction there are several facilities that are aging and in need of modification, including:

Gym facilities: There is limited toilet and changing facilities associated with the gym, although it is accepted that patrons may arrive changed and leave in their gym gear. The profile of gym space is poor with the external outlook limited; fitness stations located on a plinth and limited circulation space. There is also no direct access through to the spa / sauna.

Group fitness space: Located to the front of the Leisure Centre, adjacent to the gym within a narrow hall space with limited natural lighting. The space does not meet standards normally expected of modern group fitness provision (sprung floor, natural light and sound insulation, increased instructor visibility, good airflow and effective storage for mobile equipment). The Needs and Feasibility study identified an 18% reduction in revenue from term program activities.

Cycling room: An extremely cramped area which functions as a cycling room. It has significant issues associated with airflow, accessibility to bikes and line of site across all users through to the instructor. The lack of natural light and air circulation does not make it attractive to customers in a competitive market.

Changing rooms: Changing facilities are showing signs of being dated and in need of modernisation.

The project will address the aging facilities and create a modern facility that is flexible and will be able to effectively compete against more specialised offerings such as 24-hour gyms and group fitness facilities (e.g. F45 gyms).

Crèche Utilisation

Benchmark analysis indicated that the crèche service operates at between 50% to 75% of capacity. There is projected to be a gradual increase in 0 to 11-year olds in the catchment meaning there will likely be higher demand for family orientated leisure pursuits and child care / crèche facilities. The current crèche is in a reasonable location at the front of the building; however, it is not very visible to an unfamiliar user and there is limited passive surveillance from the main reception area. The design is not in line with current trends to provide a separate crèche access for customers that enables them to drop children off prior to entering reception and allows for monitoring of their entry to and egress from the main reception area. Although there is sufficient floor space, the current crèche's external play space is poor. Older children are not serviced well and there is limited capacity through school holidays. The project will provide a more suitable crèche that addresses security issues and will provide sufficient capacity to provide additional services and still meet future demand.

Outdoor sport facilities and team sport capacity

The current pressure on indoor court provision necessitates the development of an alternative external play area (as a cost-effective alternative to developing additional indoor provision). Team Sports competitions consistently operate at 94% capacity and the Centre is not able to meet additional demand. The current

internal courts are used for basketball, netball and indoor soccer with no capacity to meet trends in outdoor sports such as soccer which has seen significant growth over the past decade[2]. The ability to accommodate this demand will become increasingly important, particularly in the northern suburbs of Metropolitan Perth where growth in the sport is particularly high. The demand for outdoor sport is also high for juniors with netball and soccer in the top two sports for junior boys and girls[3].

Demographic and fitness activity trends

Population projections indicate a gradual aging of the resident population that will result in a shift of the age profile of the community towards older family units and retirees. The gradual aging of the population would tend to indicate that there will be a greater demand for programmed gym and group fitness activities. The current facilities would not be able to meet this increase in demand.

Cycling continues to be a growth area for personal fitness. Cycling / cycle studio classes continue to show a growth in participation and are unlikely to diminish as it supplements and supports outdoor cycling activity and other group fitness programs. The ability to cater for expanding demand in the area and provide an attractive and functional space is likely to be an income driver. The current cycling room is unable to meet demand and could even lose participants due to its present condition.

Access to the gym, group fitness and personal training has the potential to be a key financial driver over the next 10 years with more people seeking the opportunity to take part in fitness activities at times that suit their working and family life. The key trends that support this opportunity include:

- Less available time and commitment to engage in organised team sport necessitating alternative personal fitness opportunities at times which suit an individual.
- A greater appreciation amongst the public of keeping fit and maintaining a level of fitness; reducing weight and using exercise to address ongoing health issues.
- The need to maintain motivation by having a variety of available programs and services at one location.
- The consistently high levels of participation in aerobics, fitness and gym activity since 2001.
- The increasing demand for specific fitness programs to address women's health and wellbeing whilst also addressing the predominantly gym (free weights, fixed resistance machines and cardio) activity based male fitness regime.
- Expenditure across Australia in gym and fitness activities / retail shows no signs of abating.
- The motivation for participating in sport has been as the ability to have fun and socialise. The combination of group, personal fitness and associated social opportunities supports this underlying driver for participation.

The Centre does not have the capacity to accommodate future growth in gym, group fitness or personal training activities. The project will provide the necessary capacity to accommodate future demand and allow

[2] Needs and Feasibility Study 2016
[3] Ibid

for increased gym services, a wider variety of group fitness options and a cycle room that meets current standards; this will enable the Centre to attract and retain users.

Noise problems for the foyer/café

The foyer has been identified as a significant issue due to sound echo from the café and other patron use. This negatively impacts the viability of the café as patrons cannot easily communicate with each other or staff members. Operating a café provides the Centre with an opportunity for an additional income stream and is a generally expected service for Centre users. The project will address the noise issues and provide a more pleasant environment that will increase the potential for income from the operation.

No opportunity to lease commercial space

Benchmark analysis indicated that there is a growing demand for community-based facilities that provide multipurpose offerings including wellness, allied health, retail and leisure facilities. The Centre currently does not have the capacity to incorporate commercial activities such as allied health services in a suitable location. The project will enable commercial opportunities in the main reception area.

Insufficient overflow carparking

Users predominantly access the Centre by car (98.1%), highlighting the importance of providing appropriate and accessible car parking areas. The Centre is relatively well positioned but isolated from a central business district or retail area where additional off-site car parking could be made available. Therefore, Centre users need to be accommodated within the site car park. This is particularly important, given that the centre and associated infrastructure is located directly off a busy east to west distributor road (Whitfords Avenue). The importance of securing capacity for vehicles which enter from Whitfords Avenue is critical as there is limited opportunity to accommodate overflow on the surrounding road network.

Car parking appears sufficient to serve the Centre's general day to day operations but is not sufficient to cater for a full use of all infrastructure at peak time activities. This is unlikely to be impacted upon with enhanced gym and group fitness space and programming as these activities can be controlled during the day and at peak times. However, It would be affected by the potential development of outdoor multi-sports courts. The main concern is the capability to accommodate traffic movement and car parking at times when the centre has its greatest throughput. The project will ensure that the capacity of car parking is improved to meet the needs of current and future users.

3.2 CLC Redevelopment Objectives

The Leisure Centre Business Plan identifies a series of operational goals which are applicable to the development of the centre. The overriding objective is: 'To provide a diverse mix of user pays programs and activities through the City's Leisure Centres that engage the community in structured physical activity.'. Based on the overriding objective, specific modifications and redevelopments have been designed that can satisfy the current and future needs of Centre users.

3.3 The Project

The project proposes to undertake the modifications and redevelopments in two phases. This is intended to address the most urgent needs such as gym and group fitness space in the near future with medium to long-term challenges being addressed in Phase two. The phases can be broken down as follows:

Phase one

- Gym extension
- Redeveloped group fitness & cycle rooms

Phase two

- Larger creche
- Redesigned reception, retail and café alfresco area
- Additional car park (138 bays)
- Change room refurbishment
- Mezzanine office conversion
- Outdoor floodlit rectangle playing surface (synthetic)
- Complementary health commercial services area

A gap analysis has been undertaken to demonstrate how the modifications will address the challenges posed by the current facility (Figure 2).

Figure 2: Gap Analysis

Facility Area	Challenge	Improvement	Floorspace Change (m^2)
Gym	Restricted by size, limited equipment and operating toward full capacity	New gym will be almost double in size with a greater diversity of equipment and flexibility to suite different gym services	380
Fitness and Cycle rooms	Too small, old, poor airflow and poor location	Fitness and Cycle rooms will be redeveloped in a more suitable location with appropriate ventilation and greater participant capacity	211
Crèche	Does not cater for older children, outdoor area is poorly designed and supervision levels do not meet benchmarked facility standards	Redesigned crèche that can cater to different age groups and is designed to meet expected standards for current and future users	166
Reception, retail and café alfresco area	Acoustic problems that are not conducive to an effective work environment and detract from the visitor experience particularly for the Café	Redesigned foyer that has room for commercial offerings and a separate café area with alfresco to cater for non-users	N/A

Facility Area	Challenge	Improvement	Floorspace Change (m^2)
Change room refurbishment	Change rooms are slightly rundown and require modernization	Changerooms will be modified with better access for gym users	N/A
Mezzanine refurbishment	Unused space	Converted to office and administration area	100
Outdoor playing surface	Current indoor sports courts are operating at competitive capacity with no outdoor sports facility	New synthetic outdoor playing surface that can be used for soccer, basketball and netball	3,200
Complementary health commercial services area	None	Relocating the offices and administration will provide space for potential allied health services in the main reception area	22

Sources: Pracsys 2018, Needs and Feasibility Study 2016

The modifications will provide a significant increase in capacity and functionality of the Centre, providing higher service levels to both members and the broader community.

4 CONSTRUCTION PHASE IMPACT

The economic impact of developing the Project has been assessed using ABS National Input-Output tables at an Input-Output Industry Group (IOIG)[4] level. The methodology involves estimating the total direct and indirect employment and output arising from the project.

4.1 Input-Output Tables Methodology

Input-Output tables provide information about supply and disposition of commodities in the Australian economy as well as the structure and inter-relationships between industries.[5] The National Input-Output tables were used to derive total multipliers, which consider the total supply-chain of goods and services for the activity in question. Impact multipliers were calculated for employment and output. The obtained multipliers were then combined with annual construction expenditure data to estimate the direct and indirect economic effect of the project on the economy.

Assumptions and Limitations

The following assumptions and limitations apply to the model:

- Results of the model represent the gross impacts in the absence of capacity constraints
- National Input-Output table approximates the actual patterns of linkages between industries in the regional economy
- Analysis assumes that the industrial structure of the economy is fixed. Considering the scale of the project, it is likely that this assumption stays true
- Estimates the employment impact based on the average output per Full Time Equivalent (FTE) employee. It is likely a significant component of the impact will result in an increase in the number of hours worked by existing employees, with some additional employment created

4.2 Construction Output Impact

Economic impact was estimated for the construction of both phases. It was calculated based on the estimated cost of $2.7 million for Phase one and $4.9 million for Phase two.[6]

The expenditure was applied to the appropriate industry sector based on the breakdown of costs by construction activity (Figure 3).

Figure 3: Construction Stage and Corresponding Industry

Construction Activity	Industry
Building Construction	Non-Residential Building Construction
Design	Professional, Scientific and Technical Services
Consultants	Professional, Scientific and Technical Services

[4] Industry grouping used by the ABS for constructing National Input-Output Tables
[5] Australian Bureau of Statistics (1995). "Australian National Accounts: Introduction to Input-Output Multipliers", Information paper, p.v. Available from: https://bit.ly/2uYbauL
[6] City of Joondalup Council Minutes 20.03.2018

Construction Activity	Industry
Furniture and Fit-out	Retail Trade

Source: City of Joondalup 2018, Needs and Feasibility Study 2016

The costs are concentrated over one year for each Phase. Total output in the broader economy for each phase is estimated to be:

- $8.7 million in Phase one
- $15.6 million in Phase two

Total output for the broader economy from the Project as a whole is approximately $24.3 million (Figure 4). This large multiplying effect on total output is indicative of the significant amount of industry-to-industry inputs within the construction sector e.g. purchasing of materials that must be manufactured within Australia.

Figure 4: Total Project Impact of Construction Activity: Increase in Output

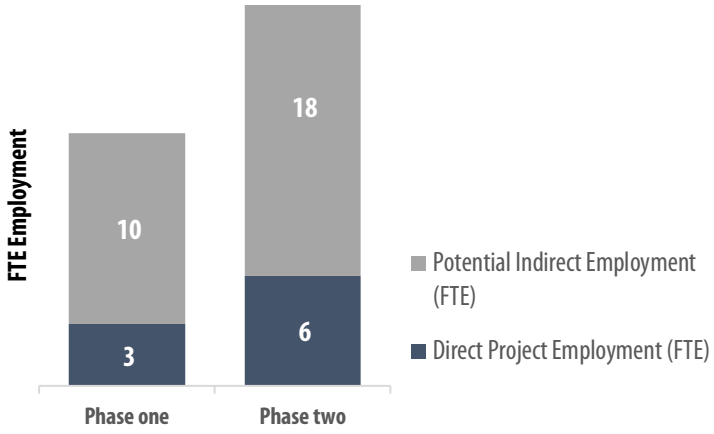
Construction Type	Cost (Direct Output) ($)	Total Output ($)
Building Construction	5,749,603	18,792,203
Design	684,477	2,064,597
Consultants	876,130	2,642,685
Furniture	273,791	788,412
TOTAL	**7,584,000**	**24,287,897**

Source: Needs and Feasibility Study 2016, ABS I-O Tables (2012-13)

4.3 Construction Employment Impact

Employment generation associated with the project has been estimated through national average output per FTE estimates in relevant industries (Figure 5).

Figure 5: Number of FTE Employees over Construction Period



Estimated direct FTE employment opportunities created in the local area amount to three in Phase one and six in the Phase two.

The total construction employment impact in the broader economy is estimated to be 13 FTEs in Phase one and 24 FTEs in Phase two.

Source: ABS I-O Tables (2012-13); Pracsys, 2018

5 ONGOING ECONOMIC AND SOCIAL IMPACT

5.1 Framework

The theory of change is central to the economic and social impact assessment. Theory of change is a method of summarising the process by which social value is created through a project or initiative (Figure 6). The identified impacts are then monetised by using the 'benefit transfer' method – drawing values (through financial proxies) from high-quality studies and applying them to the context in question. Once all impacts are translated to the same metric they can be easily compared to the costs of the project.

Figure 6: Theory of Change Approach

Source: Pracsys (2017) based on the SROI Network International's Guide to Social Return on Investment 2015

5.2 Critical Assumptions

Capital Costs and Timeframe

For the purposes of the analysis the capital costs by phases are based on the City of Joondalup Minutes of Meeting of Council from 20 March 2018. The City has approved the first phase of the project and it is due to start in 2018-19. The City will consider the approval of the second phase in future. This report is intended to provide an additional information that may aid the City in evaluation of Phase one benefits and consideration of the Phase two potential commitment.

To be consistent with the City of Joondalup Minutes of Meeting of Council and Needs and Feasibility Study prepared in 2016, the same timeframe for all upgrades was adopted.

Participant Growth

Participant growth is the main variable used to estimate majority of the benefits. It is assumed that after the upgrades and extension, the Centre will be able to accommodate current and future demand. The participation growth was estimated for each element of the upgrade:

- Gym expansion (Phase one)
- Group fitness area expansion (Phase one)
- Indoor cycling area expansion (Phase one)
- New outdoor team sports area (Phase two)

The Centre cannot currently accommodate the demand or in some cases retain participants due to the capacity constraints and outdated facilities. After the upgrades it is expected that significant latent demand will be accumulated and retained. To be consistent with the financial modelling prepared during the needs

and feasibility assessment, the projected increase in participants is matched to the assumptions applied in CLC Financial Projection model provided by the City (Figure 7).

Figure 7: Participation Growth Rate

Year	Growth	Source
Gym Participants		
2019-2020	25% increase	CLC Financial Projections Model
2021-2038	1% annualised growth	
Group Fitness Participants		
2019-2020	100% increase	CLC Financial Projections Model
2021-2038	1% annualised growth	
Cycling Participants		
2019-2020	100% increase	CLC Financial Projections Model
2021-2038	No change as reaches capacity	
Team Sport Participation		
2023-2038	Utilisation 30 hours 52 weeks a year	CLC Financial Projections Model

Source: Pracsys (2018), CLC Financial Projections Model 2017

Additional Costs and Benefits

For the purposes of the analysis only the additional costs and benefits that would not have occurred but for the project were evaluated. This means that only the benefits for additional participants and the additional operating costs/revenues were included in the model.

Discount Rate and Present Value

For monetised flows to be directly comparable in a CBA or SROI, those costs or benefits incurred in the future need to be discounted back to current dollar terms. This reflects society's preferences, which place greater weight on consumption occurring closer to the present, and the opportunity cost of investment. In the analysis, all future costs and benefits are discounted to obtain the present value of benefits and costs. A standard 20-year timeframe was set for this analysis; after 20-years, present value costs and benefits become very minor. The rate that converts future values into present values is known as the discount rate. The office of Best Practice Regulation (2016) requires the calculation of present values at an annual real discount rate of seven per cent (7%). This is consistent with NSW Treasury (2007) and USOMB (2003).

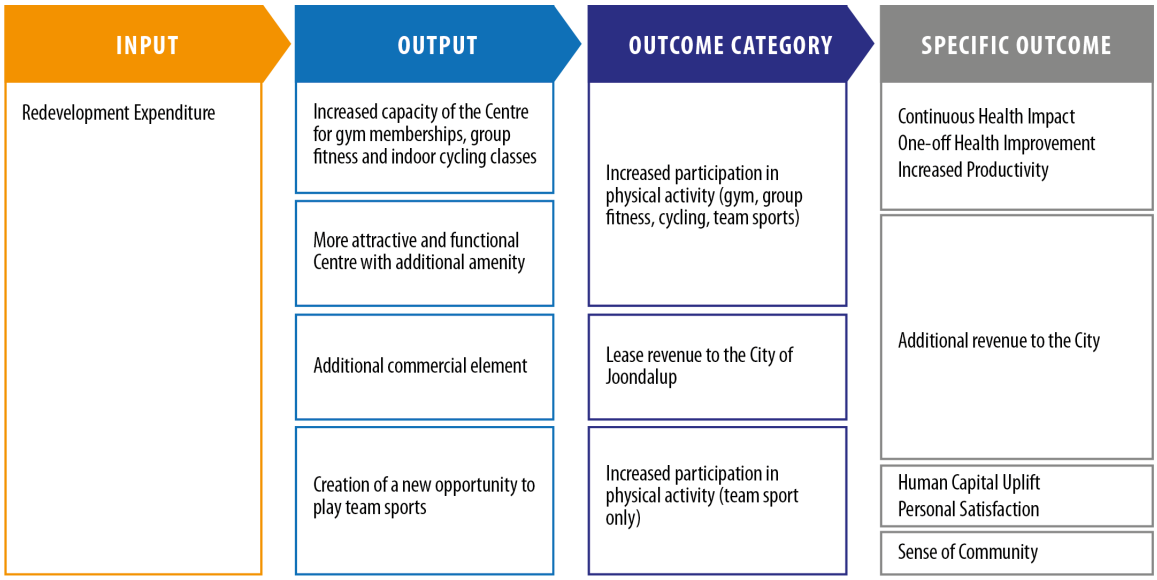
5.3 Input

Capital expenditure for the project, additional operating expenditure and additional asset replacement costs were included in the analysis. The Phase one upgrade requires a one-off investment of around $2.7 million and Phase two - around $4.9 million. Both additional operating expenditure from Phases one and two were included in the model. Overall, the present value of all additional costs associated with the upgraded facility is approximately $10.6 million.

5.4 Benefit Pathways

The direct investment in upgrading the Centre allows for a number of positive outputs to be achieved that in turn trigger positive changes in behaviour (outcomes). The process through which specific outcomes are achieved is mapped in (Figure 8).

Figure 8: Outcome Pathways



Source: Pracsys (2018)

The main outcomes streams are related to:

- The increased capacity of the Centre for gym memberships, group fitness and indoor cycling classes and more attractive and functional Centre with additional amenity.

  Currently, a number of the main income generating areas are operating at or near capacity. In particular gym and group fitness participation has the potential to grow but is limited by current available space. The upgraded Centre will have the capacity to accommodate current unmet demand and future demand associated with population growth and improved Centre attractiveness. There are positive outcomes related to these additional participants and an increase the revenue base for the Centre.
- Creation of a new opportunity to play team sports.

  A new outdoor rectangle playing surface with floodlighting is proposed as part of the upgrades. This enables additional team sport activities at the Centre that will attract new participants. There are positive outcomes related to these additional participants and an increase the revenue base for the Centre.
- Additional commercial element.

  Relocation of the office area to mezzanine level during the Phase two upgrades allows the existing office area to be utilised for complementary health commercial services. The new commercial element creates a new revenue opportunity for the City of Joondalup.

5.5 Valuing Outcomes

OUTCOME CATEGORY	SPECIFIC OUTCOME
Increased participation in physical activity (gym, group fitness, cycling, team sports)	Continuous Health Impact One-off Health Improvement Increased Productivity

Continuous Health Impact

There are significant health benefits attributable to participation in sports. Physical activity has been linked to a reduced risk of developing a number of chronic diseases and improved mental health.

An Australian study found that each hour that an individual engages in moderate physical activity brings $3.02 (in $2010) per hour of health benefits.[7] The benefit represents healthcare savings. In 2018 dollars this equals to $3.48 per hour of physical activity.

This benefit will accrue to all additional participants during each visit. It is conservatively assumed that each member participates in Centre activities for an hour per visit (Figure 9).

Figure 9: Continues Health Impact

	Activity	Impact per Additional Visit	First Year Visits[8]	PV Total Impact
Continues Health Impact	Gym Participation	$3.48	43,344	$2,135,000
	Group Fitness Participation		67.600	$2,791,000
	Cycling Participation		5,460	$196,000
	Team Sport Participation		16.500	$399,000

Source: Pracsys 2018

One-off Health Improvement

There is typically a risk reduction of 30% (including all-causes of mortality) for those achieving the recommended levels of at least moderate intensity physical activity on most days of the week compared to those who are inactive.[9] World Health Organisation estimated that healthcare savings associated with inactive people becoming active is approximately $500 USD per person. The number was adjusted to $2018 AUD, using RDA currency exchange estimates and ABS CPI estimates, and is equal to approximately $1,327 AUD.[10]

The benefit is associated with additional participants who are currently inactive. The number of unique users was estimated assuming that average active users participate three times per week. The total number of unique additional participants who would visit the Centre was multiplied by the proportion of Australians

[7] Trubka, R., Newman, P., Bilsborough, D., 2010. The Costs of Urban Sprawl – Physical Activity Links to Healthcare Costs and Productivity,
[8] Please note the number of additional visits (non-unique visitors) changes in accordance with assumptions stated in Section 5.2 Critical Assumptions.
[9] Lee. I and Skerrett, P., 2001. Physical Activity and All-Cause Mortality: What is the Dose-Response Relation?;
[10] World Health Organisation, 2003 as citied in Frontier economics, The Economic Contribution of Sport to Australia, 2009

who are inactive, 40% (did not participate in sport or physical recreation at least once during the 12 months prior to the ABS interview) (Figure 10).[11]

Figure 10: One-off Health Improvement

	Activity	Impact per additional participant	First Year Participants[12]	PV Total Impact
One-off Health Improvement	Gym Participation	$1,327	84	$403,000
	Group Fitness Participation		128	$483,000
	Cycling Participation		7	$23,000
	Team Sport Participation		132	$312,000

Source: Pracsys 2018

Increased Productivity

By participating in sport, individuals are mentally and physically healthier and have enhanced cognitive performance. As a result, economy is more productive. This is achieved through for example lower absenteeism from work, greater personal productivity and increase in human capital.

Research indicates that a four per cent increase in productivity could be achieved for those workers who commence regular sport and recreational physical activity.[13] Assuming the person remains active, the benefit is sustained annually. Based on the current GRP per employee in Greater Perth of $193,723,[14] a 4% increase equates to $7,749 per employee per annum.

The benefit is associated with additional participants who are currently inactive and employed.[15] The proportion of City of Joondalup residents that are currently employed was applied to additional unique inactive members (Figure 11).[16]

Figure 11: Increased Productivity

	Activity	Impact per additional employed participant	First Year Participants[17]	PV Total Impact
Increased Productivity	Gym Participation	$7,749	51	$5,558,000
	Group Fitness Participation		77	$7,074,000
	Cycling Participation		4	$357,000
	Team Sport Participation		79	$4,264,000

Source: Pracsys 2018

[11] ABS Participation in Sport and Physical Recreation, 2013-14 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/4177.0)
[12] Please note the number of additional participants (unique visitors) that were previously inactive changes in accordance with assumptions stated in Section 5.2 Critical Assumptions.
[13] Frontier Economics, 2009, The Economic Contribution of Sport to Australia, p.24.
[14] Remplan Greater Perth Economic Profile (https://www.economyprofile.com.au/perth/industries/gross-regional-product)
[15] Economy.id City of Joondalup (https://economy.id.com.au/joondalup/Employment-capacity)
[16] See Section 5.5, One-off Health Improvement
[17] Additional previously inactive visitors who are employed. Please note the number of additional participants (unique visitors) that were previously inactive changes in accordance with assumptions stated in Section 5.2 Critical Assumptions.

OUTCOME CATEGORY	SPECIFIC OUTCOME
Increased participation in physical activity (team sport only)	Human Capital Uplift Personal Satisfaction

Human Capital Uplift

Participation in sport can increase an individual's skills, knowledge and leadership. Physical activity has been shown to stimulate brain development, which is correlated with improved academic performance.[18] A German study on education attainment and sport participation has found that the chances of attaining a university degree is increased by 5% on average due to participation in sport.[19]

Based on ABS the difference in mean weekly earnings, for those with a bachelor's degree and those with only a school qualification or less, is $546 per week ($28,392 per year). The value of a 5% increase in the probability of attaining a university is therefore $1,420 per year.

The value is attributable to all children and junior participants (5 to 20 years old) who would normally only achieve a high school education level (Figure 12).[20] It was conservatively assumed that children and junior members would participate in team sports only.

Figure 12: Human Capital uplift

	Impact per additional junior participant	First Year Participants[21]	PV Total Impact
Human Capital Uplift	$1,420	36	$354,000

Source: Pracsys 2018

Personal Satisfaction

Being part of a sports team has been linked to improved wellbeing and a sense of fulfillment for participants.[22] It is possible to estimate the intrinsic value of belonging to the team through time value proxies.[23]

A conservative estimate of the value for time spent participating in sport (leisure activities) is $15.45 per hour, based on an estimate of the value of non-working time.[24] This is the metric that has been used to estimate the value of personal satisfaction associated with participating in team sport (Figure 13).

Figure 13: Personal Satisfaction

	Impact per Additional Participant per Visit	First Year Visits	PV Total Impact
Personal Satisfaction	$15.45	16,500	$1,771,000

Source: Pracsys 2018

[18] Clearing House for Sport (https://www.clearinghouseforsport.gov.au/knowledge_base/organised_sport/value_of_sport/school_sport)
[19] The Impact of Participation in Sports on Educational Attainment: New Evidence from Germany, IZA DP No. 3160, 2007
[20] Based on 50% proportion of Australians with only school qualifications (ABS, 2008, Education Across Australia)
[21] Additional young participants who would normally only achieve a high school education level. Please note the number of additional participants (unique visitors) changes in accordance with assumptions stated in Section 5.2 Critical Assumptions.
[22] Linver et al., 2009, '*Patterns of adolescences' participation in organised activities: are sports best when combined with other activities*'.
[23] South Australian Centre for Economic Studies, 2015, p. 25.
[24] HM Treasury, 2011, p. 59

OUTCOME CATEGORY	SPECIFIC OUTCOME
Increased participation in physical activity (gym, group fitness, cycling, team sports)	Additional revenue to the City

Increased Club Revenue (Phase one)

The Centre is a not for profit organisation that provides valuable services to the broader community. Any revenue earned by the Centre is returned to the community through the local government services. The upgraded facility will provide the Centre with the opportunity to earn greater revenue. It is estimated that the new facility will generate over $593,000 additional revenue for the City in the first year of operation after Phase one upgrades, increasing to $768,000 after 10 years of operation (Figure 14).

Figure 14: Phase One Additional Revenue

	First Year Impact	PV Total Impact
Centre Revenue Phase One	$593,000	$7,699,000

Source: Pracsys 2018

OUTCOME CATEGORY	SPECIFIC OUTCOME
Lease revenue to the City of Joondalup	Additional revenue to the City
Increased participation in physical activity (team sport only)	

Increased Club Revenue (Phase two)

Phase two will bring additional revenue (additional to Phase one revenue) through the new outdoor playing surface and commercial lease opportunity. It is estimated that Phase two will generate revenue for the City of approximately $50,000 in the first year (2021-22 – commercial element only), increasing to after 10 years $413,000 (Figure 15).

Figure 15: Phase Two Additional Revenue

	First Year Impact	PV Total Impact
Centre Revenue Phase Two	$50,000	$3,023,000

Source: Pracsys 2018

OUTCOME CATEGORY	SPECIFIC OUTCOME
Increased participation in physical activity (team sport only)	Sense of Community

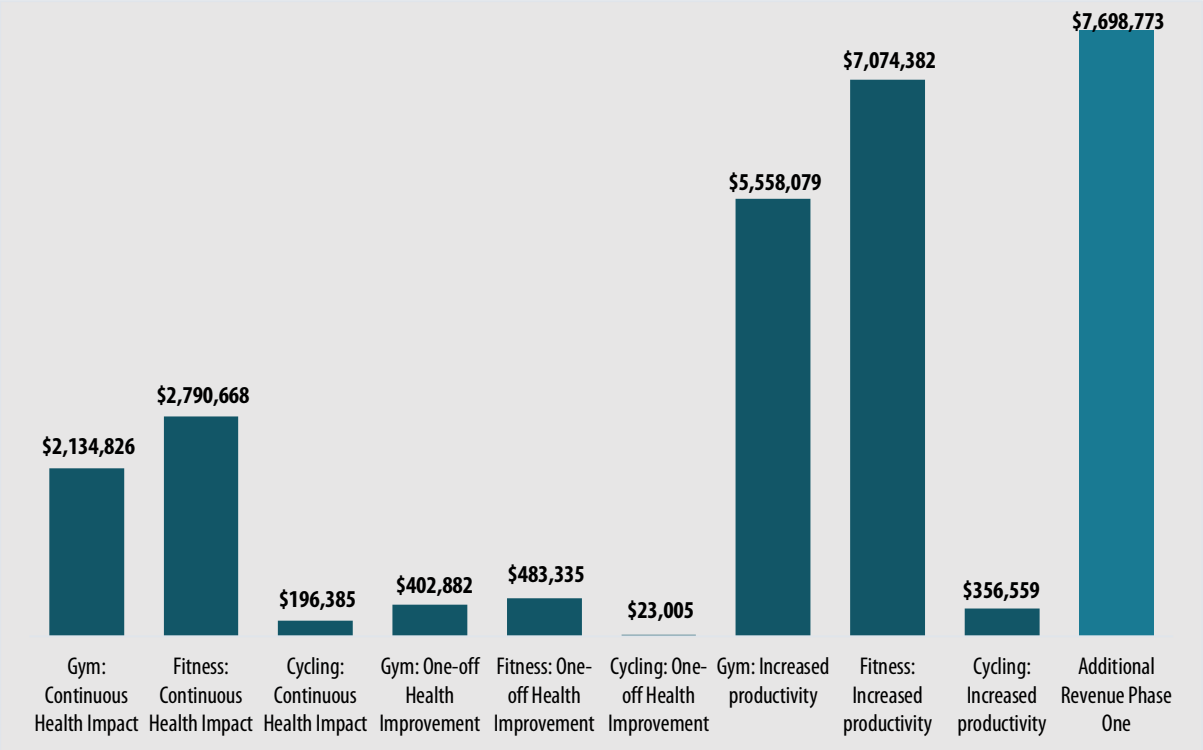
Sense of Community

Team sport creates bridging social capital, facilitating interactions between different groups, it can promote inclusion which is particularly relevant to multicultural communities. Community sport increases level of trust due to the social inclusion and connectedness it promotes, as well as the team dynamics it facilitates.[25]

5.6 Present Value Benefits

The proposed upgrades have the potential to bring significant benefits to the community with economic benefits (revenue to the City and increased productivity) benefits being the most substantial. Benefits by phases are presented in Figure 16 and Figure 17. Please note that some benefits accounted for in Phase one are supported through activities that are planned to be undertaken during Phase two. For example, change room refurbishment and creche expansion will help to attract and retain additional participants that the Centre can accommodate due to the gym expansion during Phase one.

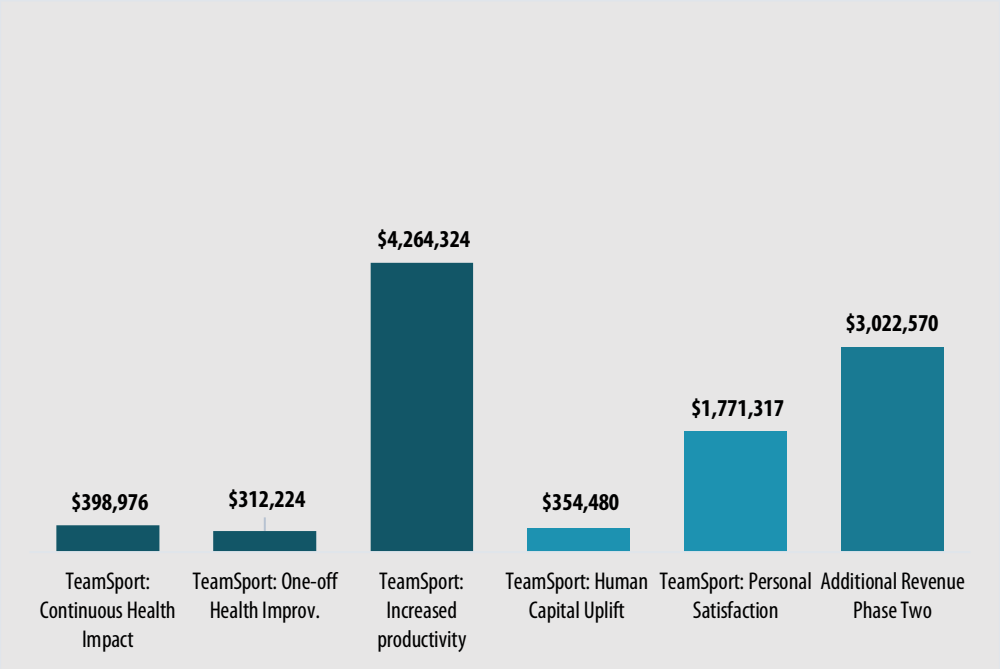
Figure 16: Comparison of Present Value Benefits (Phase One)



Source: Pracsys 2018

[25] Brown, Hoye and Nicholson, 2014, Generating trust? Sport and community participation.

Figure 17: Comparison of Present Value Benefits (Phase Two)



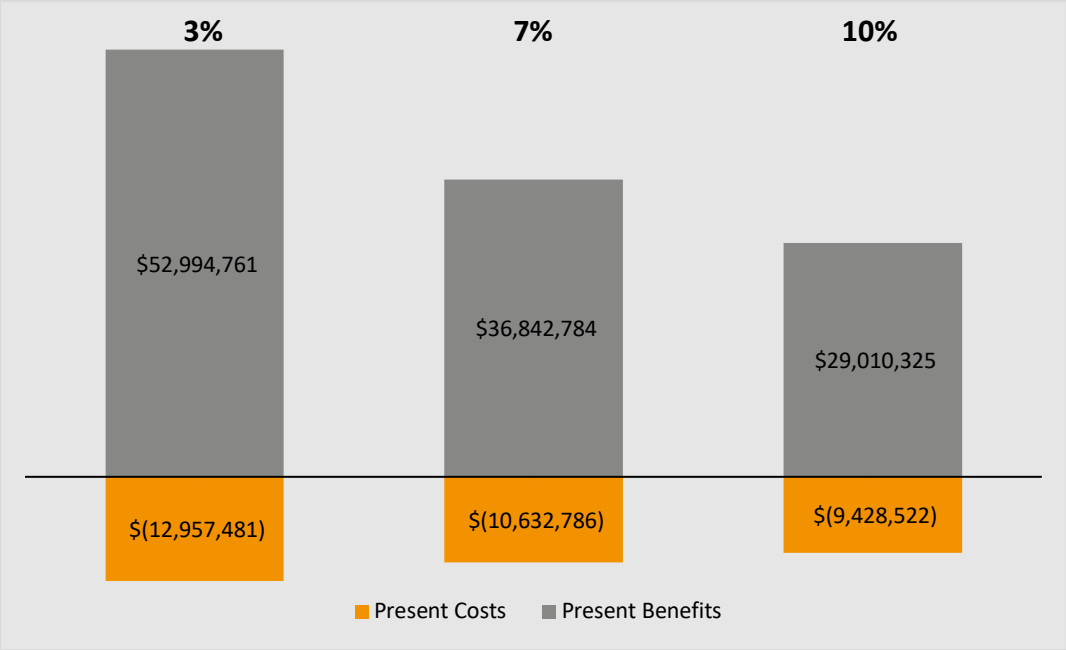
Source: Pracsys 2018

6 COST BENEFIT ANALYSIS

The present value of total costs has been compared to the present value of total benefits over a 20-year period to calculate the Net Present Value (NPV) of the project. As recommended by the Office of Best Practice Regulations (2016), present values are calculated at an annual real discount rate of seven per cent.

Sensitivity analysis was conducted to account for uncertainty using real discount rates of three and ten per cent (Figure 18). The project is likely to provide significant long-term benefits with an NPV of approximately $26 million.

Figure 18: Sensitivity Analysis



Source: Pracsys 2018

The Benefit Cost Ratio (BCR) was calculated based on the ratio of present value benefits to present value costs (Figure 19).

Figure 19: BCR

	Discount Rate		
	3%	7%	10%
NPV ($)	$ 40,037,281	$ 26,209,998	$ 19,581,803
BCR Ratio	4.09	3.47	3.08

Source: Pracsys 2018

The analysis estimated a BCR of 3.47 for the project, indicating that for every dollar invested there is approximately $3.47 of benefits generated for the local community. There was a BCR of 3.08 even when a discount rate of 10% was applied, indicating that there is a relatively high level of certainty that the project will achieve a positive benefit outcome compared to costs.

7 CONCLUSION

Overall Benefits

The City of Joondalup has indicated a pressing need to upgrade the existing Craigie Leisure Centre to increase the capacity for the main income generating areas and improve the overall amenity of the Centre in order to stay competitive in the current and future leisure activity market.

The project has the potential to bring significant economic and social benefits to the community.

Benefits to additional participants include:

- Continuous health benefits
- One-off health benefits for new participants that are currently inactive
- Productivity benefits for new participants that are currently inactive
- Human capital uplift (education) benefits to children and junior participants (5 to 20 years old)
- Personal satisfaction from being a part of sporting organisation (for team sport participants)

Commercial benefits to the City:

- Additional operating revenue from Phase one upgrades
- Additional operating revenue from Phase two upgrades

The project is expected to generate nine direct FTE positions and 28 indirect FTE positions over the construction period of both Phases. The NPV of the project is $26 million and its BCR is 3.48, indicating that the project has the potential to yield a significant return on investment.

Phase Two Benefits

The City has approved the first phase of the project and it is being implemented currently. The City will consider the approval of the second phase in future. If Phase two is approved it alone has a potential to bring around $10.1 million in present value (years 2018) benefits. The specific benefits of Phase two include:

Continuous health benefits	$399,000
One-off health benefits for new participants that are currently inactive	$312,000
Productivity benefits for new members that are currently inactive	$4,264,000
Human capital uplift benefits to children and juniors	$354,000
Personal satisfaction from being part of a sports team	$1,771,000
Additional operating revenue	$3,023,000
Sense of Community	Qualitative

The NPV of the phase two is $3.8 million. Please note that upgrades that are planned to be undertaken during Phase two will support some benefits accounted for in Phase one. For example, change room refurbishment and creche expansion will help to attract and retain additional participants.

Project Name	**Craigie Leisure Centre refurbishment project Phase 1**
Report	**Financial evaluation**

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1. INTRODUCTION AND BACKGROUND

1.1 Purpose of report

This report is prepared in support of the Craigie Leisure Centre (CLC) refurbishment project Phase 1 project ("the project"), which is under review following detailed design.

The project involves various upgrades and extensions and these have been split into 2 phases. Phase 1 was endorsed by Council in March 2018, using capital cost estimates from the concept design stage and financial evaluation from a feasibility report. The detailed design has identified a significant increase in capital costs, but also reviewed the operating impacts and identified much higher benefits as well which outweigh the additional cost.

The purpose of this report is to:

- Document the sources and assumptions from the revised financial impacts
- Summarise the overall financial impacts to the City, in various formats (cashflow, operating results)
- Sensitivity analysis of key assumptions
- Comments and recommendations by Senior Financial Analyst

1.2 Out of scope

The following are out of scope:

- Phase 2 evaluation
- Detailed review of cost estimates
- Procurement plan
- Risk management plan
- Project management plan
- Asset management plan.

1.3 Whole of life approach

The City applies a whole-of-life approach to all projects and uses a wide number of tools to ensure it is financially sustainable both now and in the future. The ongoing operational impacts are assessed as much as the one-off costs. This ensures that the overall costs of a project over the long-term are evaluated and budgeted.

1.4 20 Year Strategic Financial Plan

The key tool to ensure that all the financial impacts of major projects are identified and financially sustainable is the City's *20 Year Strategic Financial Plan* (SFP) which is updated on an annual basis. The 2019 SFP was adopted by Council in August 2019 and included the same financial impacts as were used in the March 2018 endorsement of the project and the 2018 SFP.

1.5 Disclaimer

This report does not contend that the financial projections will come to pass exactly as stated but are merely a guide in support of the overall review. The projections are best estimates at

this point in time however, there is a level of risk and uncertainty in all the projections. The actual impacts will vary due to one or more the following:

- Variation in capital costs due to tenders, site conditions, market conditions
- Economic factors
- Take-up from the community for the new facilities

The financial projections should be updated at each key stage of the project so that the confidence of the assumptions improves.

1.6 Data

There is a wide range of financial data referred to in this report. The majority of data will be presented in thousands ($000s). There may be some other items shown as dollars ($), or where necessary in millions ($m), and where this is done it will be clearly labelled.

1.7 Values

Each section will initially review all the assumptions in today's dollars . However, all values will then be escalated to take account of inflation so that the overall costs over a 20-year period can be assessed.

1.8 Model

The financials are summarised using the City's simple project financial evaluation model, version 2018-19 (7 June 2018). This model was subject to a detailed integrity review by Deloitte in 2016.

2 PROJECT OBJECTIVES

2.1 Project background / previous reports and objectives

The project has evolved during the past few years as follows:

- SFP – The origins of the project relate to a high-level estimate in the SFP that due to the high utilisation of the CLC that some upgrades would be required in the future, but the amounts initially included in the SFP were not scoped in any detail.
- Needs and feasibility study - The City then began to formalise the project in 2015 and 2016 by engaging Davis Langdon (now AECOM) to prepare a needs and feasibility study. This report provided the basis of the upgrades currently being reviewed and included estimated capital costs, based on high-level concept designs. Financial analysis was also prepared which indicated the potential operational impacts and estimated payback periods.
- Project plan - The project in its current form had a project plan approved in 2016, which included project objectives / outcomes / deliverables.
- Council endorsement 2018 - A Council report was endorsed in March 2018, which authorised detailed design to commence for phase 1. The report provided summary details of the needs and feasibility study and indicative paybacks.
- Since March 2018 the project has undergone detailed design. This has provided more realistic capital cost estimates and provided more data (such as increase in square metres) to refine the operational impacts, only for phase 1

The financial objectives have not been quantified within any of the reports above, but it is generally accepted that the upgrades should provide a financial payback within a reasonable timeframe.

2.2 Quantified project objectives

The information now available for phase 1 provides a much better view than previous data to understand clearly the overall financial impacts on the City of the proposed works. It is therefore worthwhile to take account of all these factors and to enhance the financial objectives by quantifying them. The benefit of having quantified project objectives is that it makes it is easier to comment / evaluate the forecast impacts of each option and whether the option achieves the expected thresholds. Most organisations have financial thresholds to evaluate projects.

There are two specific financial objectives that are deemed relevant for the project:

- Payback – payback within 20 years. This will be calculated using discounted cash flows so that all cash flows are shown in today's values.
- Operating surplus achieved within four years – it is important that the project avoids having losses for several years which hinder the City's ability to improve the overall operating results. An early surplus is therefore required from this project. Objective one (payback) would likely only be met with the achievement of this objective so they complement each other.

2.3 Net present value payback within 20 years – further comments

The net present value (NPV) calculation is a standard tool used by most organisations to evaluate projects. It includes all incremental whole-of-life cash impacts of the proposal such as capital costs, capital replacement, operating. The forecast cash flows must take account of:

- Establishment costs that are supported by detailed cost estimates;

- Cost of funding such as borrowings.
- Operating income increases – prudent increases of operating income supported by reliable evidence and / or benchmarks.
- Operating expenses likely impacts. These items are much more likely / certain than increases in income such as when a facility is increased in size then it is likely that additional staff would be required rather than additional income.
- Capital replacement costs. A new facility brings with it the ongoing burden of capital replacement. Some of these costs may not be required for many years beyond the initial 20-year assessment, but for the purposes of calculating prudent payback it is important that the cash required in future years is included in the 20 year-analysis.

A discount factor of 7% has been used by the City during the past few years to evaluate projects and calculate net present value. The 7% discount factor is not based on weighted average cost of capital calculations (WACC) that would normally be used in organisations that are driven by profit. The 7% is based on an arbitrary estimate of the rate required to discount future cash flows back to today's dollars, including a margin for risk. The 7% has also been recommended by external consultants during recent evaluations. As the City only needs to strive for a moderate operating surplus, the 7% factor may be on the high side, but it is prudent to continue using this because it factors in extra risk.

2.4 Social and economic return on investment (SROI)

Projects involving increased leisure activities provide benefits to the community which are initially not included in the financial evaluation. However, there are now accepted tools that are used by the City, and many other organisations, to quantify the overall financial benefit to the community. This is known as SROI, which culminates in a benefits-cost ratio (BCR). The Craigie Leisure Centre refurbishment project was one of a number of projects that the City recently evaluated using SROI tools.

The BCR for this project was high, over 3 which indicates that for every $1 of investment there is over $3 of benefit to the community. This analysis was based on the original high level concept plans and cost estimate and will not be subject to any further comment in this report, which is financial evaluation.

3 DEFINITIONS AND OPTIONS

3.1 Definitions

Before going into any detail of the financials, it is worth defining some terms used in the project:

	Term	Values	Comments
1	Phase	Phase 1 Phase 2	The overall upgrades identified in the needs and feasibility study were split into two distinct phases. The first phase was deemed to be of high priority relating primarily to the upgrade of the fitness / gym areas. The second phase relates to other upgrades, such as synthetic external sports pitch, which are lower priority and may be left for a few years until the impacts of phase 1 can be fully implemented.
2	Options	Option 1 Option 1A	There are two options referred to in this analysis, both of which only relate to phase 1. Option 1 is a higher capital cost which would address all the areas identified in phase 1.
3	Stages	Stage 1 Stage 2	Stage 1 relates to the first year of construction (2019-20) and Stage 2 relates to the second year (2020-21)

3.2 Options 1 and Option 1A

Two options have been evaluated for phase 1:

- Option 1 – this addresses all the elements recommended within the needs and feasibility study for phase 1. In addition, there are other elements which were initially considered as phase 2 but are now proposed as phase 1 because they provide additional infrastructure which supports the growth in income arising from the key changes in services, and because it is logistically better to make the changes as part of phase 1. The items proposed to be brought forward from phase 2 to phase 1 are:
  - Relocation and extension of the creche.
  - Relocation of staff room
  - Formalisation of the existing overflow car park.
- Option 1A – this is based on Option 1 but removes or reduces the following items:
  - Crèche
  - Staff room
  - Group fitness studio
  - Cycle studio
  - Wellness studio
  - Formalisation of the existing overflow car park

4 ESTABLISHMENT IMPACTS

4.1 Budget for phase 1

The Adopted 20 Year SFP has a budget of $2,935k for phase 1. This is based on the March 2018 Council Report as follows:

- $2,382k original budget in the previous SFP (resolution one)
- $553k additional budget which relates to the surplus identified from the Duncraig Leisure Centre refurbishment project (resolution three)

Note that resolution two refers to a requirement of $2,726k which was identified as the cost for phase 1 from the needs and feasibility report. From now on the budget that is referred to for Phase 1 of the project is $2,935k as per the Adopted 2018 SFP and as per resolution one and three of the March 2018 Council report.

4.2 Capital costs total by option

The following are the estimated capital costs for each option as provided by QS following detailed design:

- $8,630k for Option 1
- $5,832k for Option 1A

The following table summarises the costs for each of the areas.

Capital & Other One-Off Costs (incl inflation)		SFP 20 Year SFP (2018)	Option1 Higher Capital Cost	Option1A Lower Capital Cost
1 Creche	*$000s*		($1,056)	($106)
2 Staff room	*$000s*	($123)	($288)	
3 Group fitness & Wellness studio	*$000s*	($746)	($1,752)	($656)
4 Cycle Studio	*$000s*	($126)	($296)	
5 Toilets / change rooms	*$000s*	($392)	($920)	($993)
6 Gym	*$000s*	($1,481)	($3,480)	($3,833)
7 Car park works	*$000s*		($678)	($93)
8 Main entry works and path	*$000s*	($21)	($48)	($58)
9 Artwork, approvals, insurance and administration	*$000s*	($47)	($112)	($94)
Total One-off Costs	***$000s***	**($2,935)**	**($8,630)**	**($5,832)**

4.3 Capital costs phasing

There are two construction stages for each option, which are proposed as follows:

- Stage 1: July 2021 to October 2021
- Stage 2: November 2021 to August 2022

The tables to follow list the assumptions for each area. The capital costs have been allocated based on the stages, so for stage 1 all capital costs for construction would be within financial year 2021-22, while stage 2 would have eight months in 2021-22 and 2 months in 2022-23.

Option 1	Stage
Creche	1
Staff room	1
Group fitness studio	1
Wellness studio	2
Cycle studio	1
Toilets / change rooms	2
Gym	2
Car park works	1
Main entry works and path	2
Artwork	2
Approvals, insurance and administration	1 and 2

Option 1A	Stage
Creche	1
Group fitness studio	1
Toilets / change rooms	2
Gym	2
Car park works	2
Main entry works and path	2
Artwork	2
Approvals, insurance and administration	1 and 2

The capital costs listed previously relate to the overall project, including costs already incurred from 2017-18. The following table summarises the spread of capital costs between the years for each option:

Phasing of Capital Costs	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Option1 - Higher Capital Cost	($12)	($70)	($100)	($80)	($7,325)	($1,042)	($8,630)
Option1A - Lower Capital Cost	($12)	($70)	($100)	($80)	($4,620)	($949)	($5,832)

4.4 Funding assumptions

The financial model has included the following:

- Borrowings from WATC (West Australian Treasury Corporation).
- Ten year fixed interest borrowings, repayable in equal instalments which includes both the interest expense and the repayment of the principal.
- Fixed interest rate of 2.5%. At present a rate of 1.68% is available for a ten year repayment loan, although this rate may not be available at the point of construction, so an estimate of the rate that may be relevant at point of construction is made. WATC have provided projections which are used within the SFP which indicate that interest rates may increase in the next few years. This appears unlikely taking account of recent economic indicators, but nevertheless a rate of 2.5% is assumed for borrowings in two or three years' time, this is deemed a prudent assumption.
- Government guarantee of 0.7%.

4.5 Net establishment costs

The following table summarises the overall establishment costs including the interest expense of the borrowings. This shows that the proposed capital cost for Option 1 is $5.7m more than the SFP while the overall establishment cost including interest is almost three times as much as the SFP. Although there are some items now proposed to be in phase 1 rather than phase 2, the majority of the increase is due to having more detailed estimates from detailed design.

Funding (including escalation)		SFP 20 Year SFP (2018)	Option1 Higher Capital Cost	Option1A Lower Capital Cost
1 One-off Costs	*$000s*	($2,935)	($8,630)	($5,832)
2 Grants, Proceeds, Reserves	*$000s*			
3 Borrowings required	*$000s*	($2,935)	($8,630)	($5,832)
4 Interest on Borrowings, incl Govt Guarantee	*$000s*	($536)	($1,575)	($1,065)
5 Total Cost of Borrowings	*$000s*	($3,471)	($10,205)	($6,897)

4.6 Loan repayments sensitivity analysis

The following table shows the different cost of the loan repayments based on different interest rates for Option 1. The value of 2.5% highlighted in red is the core assumption used in the model as explained earlier and used throughout the rest of the report. The table then shows the impacts at increments of 0.25% lower or higher.

Sensitivity Analysis - Loan Repayments

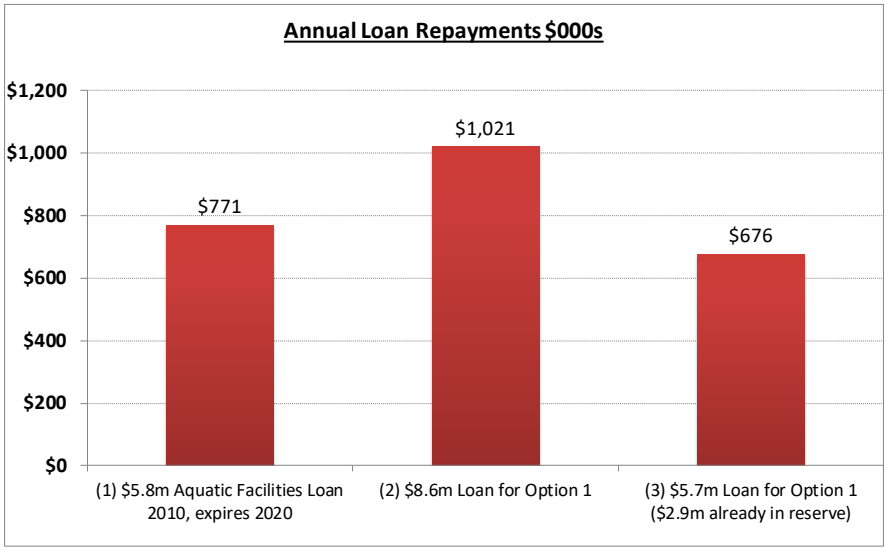
		Interest Paid $000s	Govt Guarantee $000s	Principal Repaid $000s	Total Borrowing Costs $000s
Interest Rate at time of Borrowings	1.50%	($728)	($345)	($8,630)	($9,703)
	1.75%	($852)	($345)	($8,630)	($9,827)
	2.00%	($978)	($345)	($8,630)	($9,952)
	2.25%	($1,104)	($345)	($8,630)	($10,078)
	2.50%	($1,231)	($345)	($8,630)	($10,205)
	2.75%	($1,359)	($345)	($8,630)	($10,333)
	3.00%	($1,487)	($345)	($8,630)	($10,462)
	3.25%	($1,617)	($345)	($8,630)	($10,591)
	3.50%	($1,747)	($345)	($8,630)	($10,721)

The financial evaluation model has assumed that borrowings would be used so that the total cost of the project can be assessed. In reality, it is likely that reserve funds could be made available for all of the project, although there will still be a cost of finance, in the form of lost earnings of cash reserves.

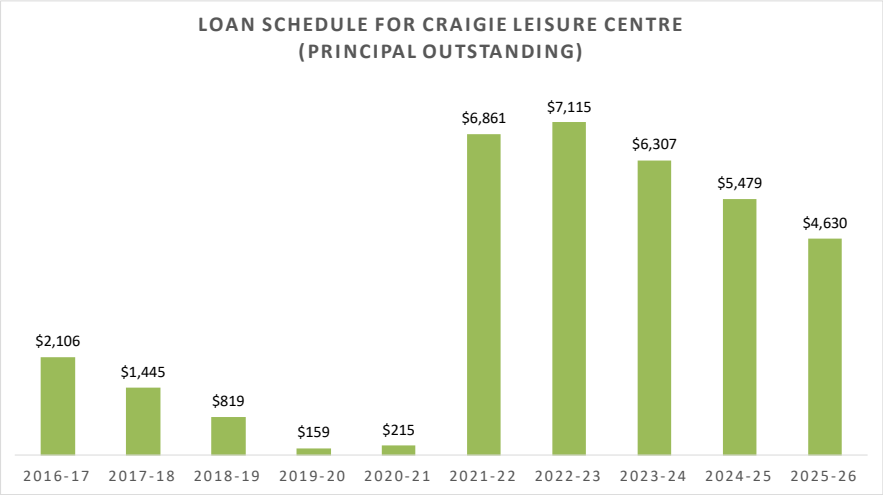
4.7 Loan repayment schedule

The City is currently paying $771k per year repayments (principal and interest) to pay off a $5.8 million loan that was taken out in 2010 for the outdoor aquatic facilities upgrade project. The loan was a 10 year fixed interest (5.8%) loan and will be repaid by June 2020. The following graph compares the annual loan repayments (principal and interest), there are three items shown:

1. Existing Loan repayments of the loan taken out in 2010, to expire in 2020. Annual repayments of $771k.
2. New loan repayments if all of the $8.6 million upgrades (Option 1) were loans. This shows that the annual cost would be $1,021k, which is $250k more than the existing loan. There would not be any overlap to item 1 i.e. the new loan would be required after the existing loan is fully paid back in June 2020.
3. New loan repayments for the additional cost of Option 1 compared to the adopted 20 Year SFP. The adopted 20 Year SFP assumes $2.9 million reserve funding for Option 1 so if the additional $5.7 million cost was a loan this would result in annual repayments of $676k, which is $95k less than the existing annual payments.



The following graph then shows the principal outstanding at the end of each financial year. The graph shows the existing loan gradually reducing to zero by June 2020 and then increases caused by the proposed refurbishments.



4.8 Phase 2

The 20 Year SFP currently has an estimate for Phase 2 of $4.9 million, scheduled from 2023-24 to 2025-26. As indicated earlier, some items from Phase 2 are now proposed as Phase 1, so Phase 2 will change. Once further information and assessment has been made of Phase 2 the SFP will be updated.

4.9 Impairment

The proposed refurbishment works mostly involves extensions but do also involve existing assets. Some of the existing assets may have to be disposed of before they have reached the end of their economic life and this would result in a one-off hit to the operating results (an 'impairment'). A review of the existing assets has been completed to prepare an indicative estimate of impairment. The leisure centre has a current replacement cost of $52.4m, a written down value of $31.2m and has been separated into 93 different components.

Each of the 93 components has been reviewed to identify whether:

- Asset would be completely written off as part of the proposed phase 1 changes.
- Not affected at all.
- Partially affected.

As a result of the review an indicative estimate of impairment has been calculated as $68k, although there are several items that require further clarification and review with the Assets Team. This information is important to include in the Council report so that Elected Members and the community are aware of the one-off impact to the operating impacts. This cost is not used as part of the cash flow analysis and will not affect the measurement of the two financial objectives listed earlier.

Although this cost is not a direct cash cost in the year of impairment it effectively is a cost of cash, because in previous year's an asset was purchased with cash and was expected to have an assumed life but have been replaced early.

4.10 Current replacement costs

The following table shows the existing asset values for the Craigie Leisure Centre (including aquatics) and shows the potential values after implementation (for Option 1). This shows that the overall replacement cost would be just over $60 million after implementation. The proposed works result in a 16% increase in the current replacement cost.

Asset Values Before & After Project	Current Replacement Cost *$000s*	Accumulated Depreciation *$000s*	Written Down Value *$000s*
Existing Asset	$52,255	$20,589	$31,667
Write-off as a result of the Project	($112)	($44)	($68)
Increase to Value due to project	$8,630		$8,630
Asset Values After Project	**$60,773**	**$20,545**	**$40,229**

5 OPERATING ASSUMPTIONS

5.1 Operating cash expenses

The table to follow summarises the assumptions for operating cash expenses. The assumptions for each item are:

- Staff (hours) are based on total employment costs (such as including 19% on-costs for superannuation, workers' comp.). The staff assumptions are for one group fitness officer at level five, two sale officers at level four and group training staff of 25 hours.
- Lease equipment of $165,000 is based on the additional equipment required for the gym extension and is based on a quote from an external supplier.
- Cleaning additional costs of $11k is based on quote from external supplier.
- Utilities currently cost approximately $500k for an existing footprint of 9,842 m^2 so an additional 825 m^2 is estimated to cost an additional $42k
- Building maintenance is calculated on a similar basis as above. The existing building maintenance costs are $280,000 so an extra $23,000 is calculated.
- Crèche additional costs of $15k based on an increase in staff expenses due the additional demand in the creche from the growth in memberships. Capacity of the creche to increase from 54 to 70 children
- Bank charges and credit card extra costs of $10k based on a 25% increase in income.

The escalation assumptions for each item are based on the average escalation assumed in the next 20 years of the SFP. It is assumed that utilities will have a higher escalation cost than all other items and then employment costs will escalate by more than the other items.

OPERATING CASH EXPENSES INPUTS

Operating Expenses Description	Volume *Qty*	Cost per Unit *$*	Expense p.a. *$000s*	Escalation *%*
Staff (Hours)	139	-$42.21	($305)	3.50%
Lease Equipment			($165)	3.00%
Cleaning	825	($13.3)	($11)	3.00%
Utilities	825	($50.8)	($42)	4.00%
Maintenance	825	($28.4)	($23)	3.00%
Creche			($15)	3.00%
Bank Charges & Credit Card			($10)	3.00%
Total OPERATING CASH EXPENSES INPUTS			**($571)**	

5.2 Depreciation and capital replacement

An estimate of 2% for both depreciation and capital replacement is assumed. A new facility brings with it the ongoing burden of capital replacement. An estimate of 2% for both depreciation and capital replacement is assumed. Some of these costs may not be required for many years beyond the initial 20-year assessment, but for the purposes of calculating prudent payback it is vital that the cash required in future years is included in the 20 year-analysis.

5.3 Operating income

The most critical assumption in the financial evaluation is the assumption that membership will grow steadily by 87% by 2028-29 with Option 1, and by 75% for Option 1A. The draft budget for 2019-20 is based on membership of 3,750, the increase of 87% would equate to just over 7,000 members by 2028-29, and result in estimated membership income of $6,650k which is $3,800k more than the $2,850 currently received.

Note that during construction in 2021-22 there would be a decline in membership. The membership growth thereafter is based on the:

- Premise that the membership per square metre will increase from 3.49 members per square metre to 3.69.
- Growth in other expanded centres:
  - The Mandurah Aquatic and Recreation Centre experienced a 27% membership drop off during their facility refurbishment and a 275% increase in memberships one year following the reopening.
  - Beatty Park experienced a 23% membership drop off during refurbishment and 162% increase in memberships one year following the reopening.
- Additional staff as listed previously to help with sales.

The increased membership income is expected to provide increased income of over $1m after two years of implementation and by 2028 an increase of over $3.6m per year for Option 1. These financial benefits outweigh the increased operating expenses, depreciation and interest on borrowings.

It is important to note that the population of Joondalup and indeed the suburbs that the leisure centre attracts most of its clients from are only expected to grow by a very small % in the next 20 years. The population growth of the ten neighbouring suburbs is shown in the following table the source is Profile ID and indicates just a 7.39% growth.

	2017	2018	2025	2031	2036
Beldon	4114	4130	4331	4528	4706
Connolly	3738	3740	3730	3710	3748
Craigie	6180	6293	6576	6657	6783
Duncraig	16015	16042	16521	17131	17904
Greenwood	9966	10033	10511	10903	11324
Heathridge	6931	6947	7209	7467	7710
Hillarys	11452	11492	11490	11668	11867
Kallaroo	5440	5449	5472	5559	5682
Kingsley	13426	13424	13425	13617	13964
Mullaloo	6333	6369	6259	6211	6083
Grand Total	**83595**	**83919**	**85524**	**87451**	**89771**
Increase vs 2017			**1929**	**3856**	**6176**
% vs 2017			**2.31%**	**4.61%**	**7.39%**

It is therefore implied in the membership growth that the new members will derive from a combination of people who are:

- Not currently active but decide to get active and use the facility.
- Go to another facility at present and switch to the leisure centre due to proximity, price or service.

- Alternative sites close down and their members go to the leisure centre.

CLC has already implemented a number of improvements in past few years to retain and attract new members, and would continue to do so once the upgrades are completed:

- The Craigie Leisure Centre price structure is similar to other facilities providing comparable services such as HBF Arena and Beatty Park.
- Customers would be attracted from marketing campaigns, variety of services that cater for all age groups, value for money and customer service.
- Membership numbers at Craigie Leisure Centre have increased by 40% in the last 2.5 years due to the following:
  - The City has invested in the Culture Focus Program to improve the overall experience for customers. Since launch, retention has increased from 42% to 57%. Industry standard is 48%. The Leisure Centre has measures in place, including a member journey and member events to retain current and newly signing members.
  - A prospect journey to improve conversion of enquiring customers to members was implemented in August 2018. Since this time, member numbers have increased from 3,800 to 4,080 and the conversion of enquiries to members has increased.
  - The leisure centre has a marketing budget which allocates approximately $70K per year specifically towards general awareness and membership campaigns, to promote the facility and attract new members. Since the addition of these funds into the leisure centres operational budget in the 2016-17 financial year, member numbers have increased from approximately 2,800 to 4,080.
  - The leisure centre will launch standalone social media in 2019 which is expected to improve the effectiveness of online advertising, improve member engagement and assist in building a community of followers.
  - A retention strategy will be implemented throughout the refurbishment project to retain members and a launch strategy in the lead up to the opening to promote the new facility and memberships.

It is therefore a reasonable assumption that there will be a high growth in membership once the upgrades are completed.

It is also assumed that the fees charged will increase by the consumer price index (CPI) each year, an average of 3% per year is assumed. The pricing / fee structure will be reviewed as part of the new facility and the growth assumptions above are only modelled on the overall average member fee.

In addition to the membership growth there is also assumed to be additional income as follows:

- $45k gym and group fitness casual attendance
- $5k Creche attendance

5.4 Phasing of operating Income and operating expenses

The financial model has phased the operating income and expenses in alignment with the construction costs and stages explained earlier. Therefore, the expenses and income related to stage 1 commence partially in 2021-22 and a full year effect from 2022-23, while the stage 2 items commence partially in 2022-23 and a full year effect from 2023-24. This is a refinement made for this version of the model, the previous version of the model just assumed a full year effect in the last year of construction.

6 CASH FLOW ANALYSIS

6.1 Total cash flows to 2041-42

The whole-of-life cash flows have been projected up to 2041-42, a total of 20 years. By evaluating over such a long period ensures that the long-term impacts can be evaluated. The following table summarises the overall cash flow impacts and includes all the cash flows in the previous sections (capital, funding, income, expenses, capital replacement and escalation).

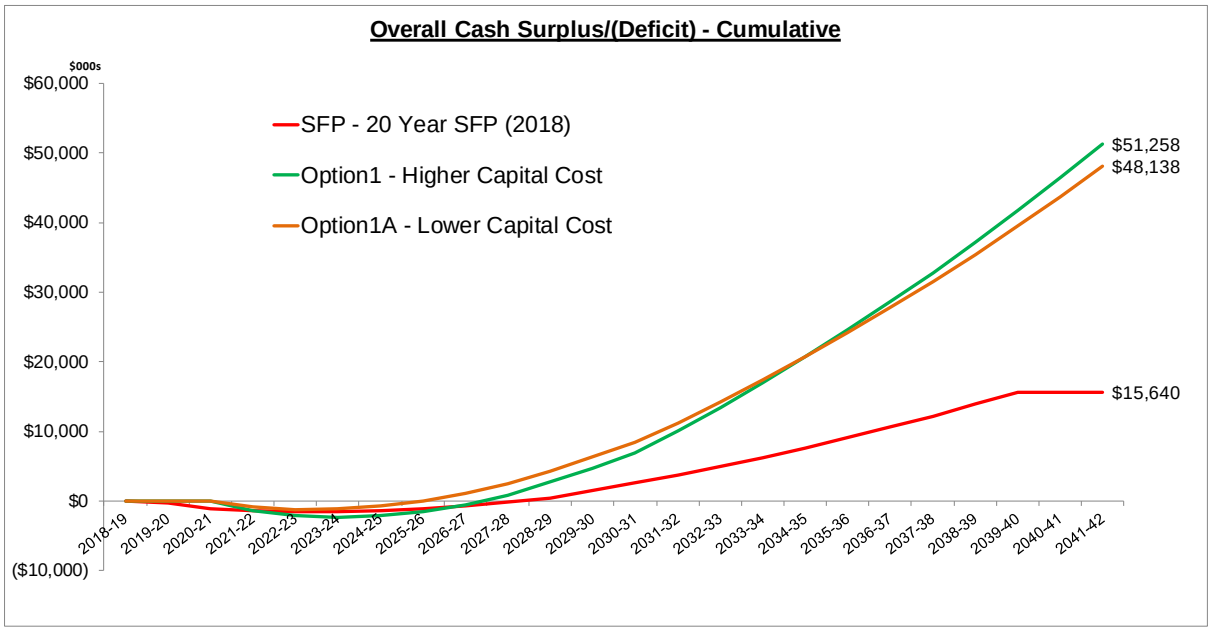
A discount rate of 7% has been used to discount the future cash flows to current values for the net present value calculation, all options provide a positive net present value. The cashflow analysis indicates that Option 1 has the better net present value but pays back the investment cost two years after Option 1A due to the higher investment costs.

The internal rate of return measures the profitability of investments. A rate of return higher than the discount rate of 7% will mean that the option provides a higher rate of return than required.

Option Summary Overall Totals including Escalation		SFP 20 Year SFP (2018)	Option1 Higher Capital Cost	Option1A Lower Capital Cost
One-off Costs	*$000s*	($2,935)	($8,630)	($5,832)
Grants, Proceeds, Reserves	*$000s*			
Net Funding Required	*$000s*	($2,935)	($8,630)	($5,832)
Interest, including Govt Guarantee	*$000s*	($536)	($1,575)	($1,065)
Establishment Cost	*$000s*	($3,471)	($10,205)	($6,897)
Depreciation / Capital Replacement	*$000s*	($1,575)	($4,676)	($3,160)
Operating Cash Expenses	*$000s*	($9,242)	($18,068)	($17,728)
Operating Income	*$000s*	$29,928	$84,208	$75,923
Cashflow Total	***$000s***	**$15,640**	**$51,258**	**$48,138**
Net Present Value/(Cost)	***$000s***	**$4,854**	**$15,908**	**$15,669**
Payback (years)	***Years***	**10**	**8**	**6**
Internal Rate Return	***%***	**22%**	**34%**	**45%**

6.2 Cumulative cash flows

The following graph shows the cash flows on a cumulative basis for each of the options and shows that both Option 1 and Option 1A will deliver a much higher outcome than the assumptions within the SFP.



6.3 Payback by area

The following table shows the payback (years) for each area. Where there is no value shown means that there is no payback for that area. The table shows that three areas (group fitness / wellness studio, cycle studio and gym) would provide sufficient income to pay back the investment.

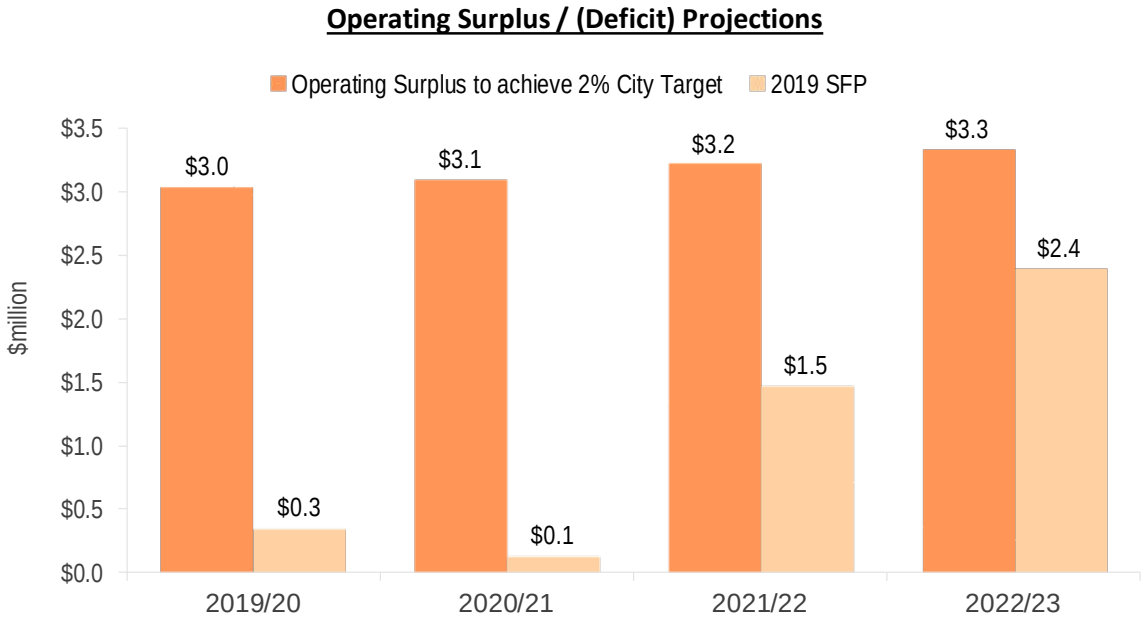
Payback by Sub-Total	SFP 20 Year SFP (2018) *Years*	Option1 Higher Capital Cost *Years*	Option1A Lower Capital Cost *Years*
1 Creche			
2 Staff room			
3 Group fitness & Wellness studio		4	3
4 Cycle Studio		4	
5 Toilets / change rooms			
6 Gym	5	6	7
7 Car park works			
8 Main entry works and path			
9 Artwork, approvals, insurance and administration			
Overall Project Payback Total	**10**	**8**	**6**

7 OPERATING IMPACTS

7.1 Operating deficit projections – overall City of Joondalup

The City may achieve a small operating surplus of $0.3 million in 2019-20. The City's key financial objective, as per the guiding principles adopted by Council in August 2019, are to strive for a modest 2% operating surplus. The following graph shows the projections for the operating surplus / (deficit) up to 2022-23, as included in the adopted 20-year SFP (2019). While this shows a positive upwards trend, this is predicated on key assumptions (most notably rate increases) which may not come to pass.

The graph is based on the adopted SFP and includes the much lower capital cost for the project, and also lower assumptions for membership growth.



7.2 Operating impacts by option

The following table summarises the potential impacts of the project on the operating results, over a 20-year period. This shows all options would have a healthy operating surplus, with Option 1 providing the best outcome. The Impacts per ratepayer (rateable property) is calculated by dividing the Operating Surplus by 60,000 rateable properties.

Operating Impacts by Option Summary up to 2041-42		SFP 20 Year SFP (2018)	Option1 Higher Capital Cost	Option1A Lower Capital Cost
Interest, including Govt Guarantee	*$000s*	($536)	($1,575)	($1,065)
Depreciation / Capital Replacement	*$000s*	($1,575)	($4,676)	($3,160)
Operating Cash Expenses	*$000s*	($9,242)	($18,068)	($17,728)
Operating Income	*$000s*	$29,928	$84,208	$75,923
Operating Surplus / Deficit	***$000s***	**$18,575**	**$59,888**	**$53,970**
Impacts per Ratepayer	***$000s***	**$310**	**$998**	**$900**

7.3 Impact on overall City operating results

The proposed refurbishments have the potential to provide significant benefits to the City's operating results once the full growth in membership income is realised. The following tables show the projected operating impacts at 2028-29 with or without the project, there are two tables shown, one for Option 1 and one for Option 1A. The first column in each table shows the operating results projected at 2028-29 in the adopted 20 Year SFP 2019, without the project. The middle column then shows the incremental impacts from the project and the final column at the right then adds together the preceding two columns to indicate the overall operating results including the project.

This shows that for Option 1, the operating surplus would increase from $4.9 million (2.3% operating surplus ratio) to $7.7 million (3.5% ratio), an increase of $2.8 million. Option 1A would have a slightly lower benefit, increasing by $2.4 million to $7.3 million. This indicates the significant financial benefits that this project can have on the City's operating results.

City Operating Results at 2028-29	Without Project *$ms*	Option1 *$ms*	Including Project *$ms*
Total Operating Income	$219.3	$3.9	$223.2
Total Operating Expenses, incl. Interest & Depn	($214.4)	($1.1)	($215.5)
Operating Surplus / (Deficit)	**$4.9**	**$2.8**	**$7.7**
Own Source Revenue	**$213.4**	**$3.9**	**$217.3**
Operating Surplus Ratio %	2.3%		3.5%

City Operating Results at 2028-29	Without Project *$ms*	Option1A *$ms*	Including Project *$ms*
Total Operating Income	$219.3	$3.4	$222.7
Total Operating Expenses, incl. Interest & Depn	($214.4)	($1.0)	($215.4)
Operating Surplus / (Deficit)	**$4.9**	**$2.4**	**$7.3**
Own Source Revenue	**$213.4**	**$3.4**	**$216.9**
Operating Surplus Ratio %	2.3%		3.4%

8 SENSITIVITY ANALYSIS

8.1 Sensitivity analysis – membership growth

The following table shows the outcomes for Option 1 based on different membership growth. The first column is the growth assumed by the project. The second column is the growth in membership included in the needs and feasibility study of just 25% and shows a negative net present value after 20 years (although it would be positive after 25 years.) The final column shows the membership growth required to break even after 20 years, a growth of 28%. This provides strong confidence that the project can break even, because even if the membership growth was so far short of the 87% growth projected it would have to be drastically lower to result in a negative NPV.

Option Summary Overall Totals including Escalation		Option1 Higher Capital Cost	Sens1 25% Membership Growth	Sens2 Break Even Membership Growth
Membership Growth		87%	25%	28%
One-off Costs	*$000s*	($8,630)	($8,630)	($8,630)
Grants, Proceeds, Reserves	*$000s*			
Net Funding Required	*$000s*	($8,630)	($8,630)	($8,630)
Interest, including Govt Guarantee	*$000s*	($1,575)	($1,575)	($1,575)
Establishment Cost	*$000s*	($10,205)	($10,205)	($10,205)
Depreciation / Capital Replacement	*$000s*	($4,676)	($4,676)	($4,676)
Operating Cash Expenses	*$000s*	($18,068)	($18,068)	($18,068)
Operating Income	*$000s*	$84,208	$40,650	$42,481
Cashflow Total	***$000s***	**$51,258**	**$7,701**	**$9,532**
Net Present Value/(Cost)	***$000s***	**$15,908**	**($496)**	**$0**
Payback (years)	***Years***	**8**		**21**
Internal Rate Return	***%***	**34%**	**6%**	**7%**

9 SUMMARY

9.1 Option evaluation

Option 1A provides a quicker payback as it has a lower initial one-off cost. However, Option1A does not provide the required growth in infrastructure (parking, larger group fitness / cycle / wellness studios, crèche) to support the growth in income. Of the two options prepared, Option 1 is the better financial option because it provides a better outcome to the two financial objectives listed earlier:

- Higher net present value
- Higher operating surplus