Project Name	**Sorrento Surf Life Saving Club**
Report	**Project Philosophy & Parameters**
Project Sponsor	Director Corporate Services
Project Manager	Manager Leisure Cultural Services
HP Records	INT20/42001

BACKGROUND

Business Case prepared by Sorrento Surf Life Saving
This project commenced in 2017 when the City received a business case to redevelop the surf club. The City have now taken the lead for the project and it is now appropriate to formalise the project objectives, philosophy and vision.

PHILOSOPHY / PROJECT VISION

Strategic Community Plan
The potential refurbishment or redevelopment of the Surf Club is related to the following three initiatives within the Strategic Community Plan.

Theme	Objective	Strategic Initiative
Community Wellbeing	Quality Facilities – To provide facilities of the highest quality which reflect the needs of the community now and into the future.	• Support a long-term approach to significant facility upgrades and improvements • Understand the demographic context of local communities to support effective facility planning
Financial Sustainability	Major project delivery – To effectively plan for the funding and delivery of major projects	Support new projects that balance identified financial risk against effective management approaches.
Financial Sustainability	Financial diversity - To be less reliant on rates as the primary basis for revenue by leveraging alternative income streams.	Identify opportunities for new income streams that are financially sound and equitable.

Vision and Purpose of Project

Vision: **"The City will apply best-practice project management and due diligence to evaluate options for the future of the Sorrento Surf Life Saving Club.**

The City will recommend the optimum outcome that considers the needs of the club, the community and improves financial sustainability for both the Club and the City."

The purpose of this project is to evaluate three options

1. DO NOTHING; or
2. REFURBISH existing facility
3. REDEVELOP new facility

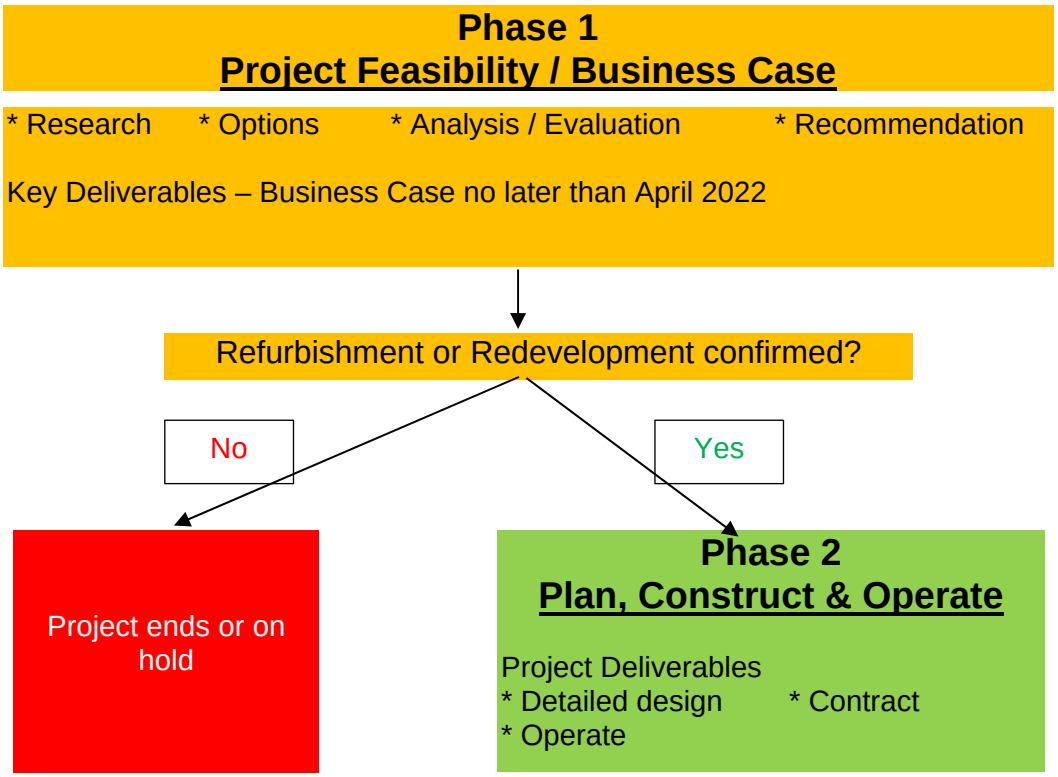
OUTCOMES & PROJECT DELIVERABLES

The key outcomes are summarised below, the next section "Project Objectives" will quantify these.

- Community – life saving, and beach patrols continue
- Building – fit for purpose now and well into the future
- Users – the facility is safe to use, accessible and is perceived to provide value for money.
- Utilisation – facility is highly utilised and provides opportunity for growth
- Financial sustainability (Club) – the Club continues to be financially sustainable
- Financial sustainability (City) – the project provides a better financial outcome to the City.
- Commercial income stream to City – any refurbished or redeveloped facility should include a separate area for the City which will be leased to a commercial tenant providing a new income stream to the City. Despite this new income stream, it would still be probable that the facility would operate at a deficit as the operating expenses (including depreciation) would exceed the income. However, the key issue is that the deficit should be a lot lower than the existing operating deficit.

PROJECT OBJECTIVES

The deliverables are split into two, as summarised in the chart below. The first project deliverable is for the business case to be developed, evaluated and the optimum option recommended. If the project recommends that the facility is refurbished or redeveloped there will be more key deliverables, the business case may also recommend that Do Nothing is the optimum option.



Quantified Project Objectives

At this early stage in the project it is worthwhile quantifying the project objectives, so that options can be evaluated against this framework and the success criteria of the project is clear.

No	Objective	Success Criteria	Measurement
1	Financial Sustainability (City) Preferred option will provide a better, or no worse, financial impact to the City over a 40 year period.	Recurring operating deficit to the City of the preferred outcome is lower than the current operating deficit, and those annual savings in would be sufficient to pay back one-off costs within a 40 year timeframe. Any one-off investment by the City to refurbish or redevelop is affordable.	The annual 'steady state' operating deficit of the preferred outcome will be estimated in the business case and will include operating income (including potential new income stream from commercial tenant), operating cash expenses (building maintenance, contribution to club) and depreciation. The estimated operating deficit will be compared to the existing operating deficit. The affordability of the one-off investment is measured using the Strategic Financial Plan and ensuring that the City's financial targets (operating surplus, debt ratios) are within threshold.
2	Financial Sustainability (Club) Preferred outcome will provide a better, or no worse recurring financial impact to the Club than the current operation.	Club generates a moderate operating surplus that is equal to or better than current operating surpluses and is sufficient to replace any of its own assets.	Business Case will evaluate the 'steady state' operating surplus. The estimated steady state operating income will be based on prudent estimates of membership growth and utilisation of club facilities. Operating expenses will include the day to day building operating expenses, cleaning, staff costs and all other club operating activities. Audited accounts will be provided to the City annually for review.
3	Community Safety The Club will continue to provide the same, or better, life-saving/beach patrol services to the Community. The building is safe.	Quantity of hours on beach patrol is equal to or greater than current operations. Zero accidents for the building and it's immediate perimeter.	The Club will continue to record the hours and actions of its life-saving and beach patrol operations on a daily basis. In addition, the Club will establish a safety log to track any accidents, or near-misses, at the building or on the perimeter.

No	Objective	Success Criteria	Measurement
4	Building The buildings are fit for purpose now and in the future for both the Club and the Community.	Existing major shortcomings (e.g. stormwater drainage) are alleviated. Anticipated growth in membership can be facilitated.	Post implementation review of the facility will confirm that major building defects are alleviated. Community access to public ablutions is adequate and minimal complaints about the facilities are received.

PROJECT DEPENDENCIES

The project is dependent on a wide number of factors as follows:

- Club satisfaction with preferred outcome and its confidence in being able to maintain existing service levels to the community and grow membership
- Community feedback – consultation on any potential refurbishment or redevelopment
- One-off investment – City's financial capacity to afford any one-off investment when considered against other competing priorities in the City.

DEVELOPMENT PARAMETERS

Governance

- Project Management Framework will be used to manage the project.
- Reports will be provided to the Major Projects & Finance Committee at key stages of the project and where necessary to Council (e.g. to proceed to community consultation).
- City is responsible for development of the business case and implementation of changes
- Consistency with adopted Council strategies and plans.

Resources

- In-house resource will be used as much as possible to complete the Business Case
- In-house resource will be used to implement any potential changes to the facility.

Sustainability Considerations

- Achievement of best practice in environmentally sustainable design principles

Key Reference Documents

The Club Business Case is a key input document

Financial Management

The Strategic Financial Plan (SFP) is the guiding document used by the City to assess affordability of major projects and confirm funding. There is currently no capital expenditure or reserve funding included for this project. The project will only be included in the SFP when the business case is approved by Council and if the SFP can confirm that the City has financial capacity to afford any one-off investment, either using reserves, municipal funding or as a last resort borrowings. Opportunities for external funding should also be exhausted before the City includes the project in the SFP.

The project will only be included in the Capital Works Program after detailed design is completed. An indicative project schedule has set out the key milestones to achieve this.

Both the Capital Works Program and the SFP are updated annually and can evaluate whether the appropriate milestone has been achieved for the project to be assessed and included.

1. DESIGN REQUIREMENTS

The following table provides an overview of the design requirements for the project. The City's standard facility specification for a large sporting facility gives guidance on the type of fixtures and finishes usually used in a facility of this classification. As the facility will be leased by the club, they will have input into the final facility specifications if the project progresses to tender design documentation stage.

Component	Size (min)	Access / location	Main features
Club areas			
Clubroom	150 m^2	Adjacent to training room	- View to beach. - Ability to open into training room with operable wall. - Television. - Television aerial. - Audio Visual setup.
Clubroom store	25 m^2	From clubroom	- Motion sensor light. - Double doors opening into clubroom.
Training room	100 m^2	Adjacent to clubroom	- View to beach - Ability to open into clubroom with operable wall. - Television. - Television aerial. - Audio Visual setup.
Training room store	25 m^2	From training room	- Motion sensor light. - Double doors opening into training room
Kitchen / bar / kiosk	45 m^2	From beach From clubroom	- Ability to service clubroom (internal servery area). - Ability to service outside (external servery area). - Commercial kitchen fit out. - Must comply with the requirements of the Food Act 2008. - Evaporative heating / cooling system.
Kitchen / bar / kiosk store	20 m^2	From kitchen / bar / kiosk	- Motion sensor light.
Outdoor undercover courtyard	As required	From clubroom and training room	- View to beach. - Enclosed undercover courtyard to service clubroom and training room.
Meeting room	50 m^2	Adjacent to office	- Audio Visual setup.
Admin / Office	20 m^2	Near main facility entrance	- Internal reception service window. - Workstation desks.
Kitchenette	5m^2	From meeting room and admin / office	- Service both meeting room and admin / office.

Component	Size (min)	Access / location	Main features
Merchandise	20 m^2	Near admin / office	- Internal reception service window.
Merchandise store	5 m^2	From merchandise	- Motion sensor light.
Gym	120 m^2	N/A	- 1 drink fountain. - Mirror walls on two sides.
Male toilets	As required	To service all club areas	- Toilets (including ambulant) as required. - Hand basins, vanity bench and mirrors as required.
Female Toilets	As required	To service all club areas	- Toilets (including ambulant) as required. - Hand basins, vanity bench and mirrors as required.
Universal access toilet	As required	To service all club areas	- Toilet as required. - Hand basin, vanity bench and mirror as required.
Female change room	As required	To service all club areas	- Shower cubicles as required (to include doors, benches and hanging space). - Toilets (including ambulant) as required. - Hand basins, vanity bench and mirrors as required. - Change area bench and hooks. - Half height lockers with RFID locking function.
Male change room	As required	To service all club areas	- Shower cubicles as required (to include doors, benches and hanging space). - Toilets (including ambulant) as required. - Hand basins, vanity bench and mirrors as required. - Change area bench and hooks. - Half height lockers with RFID locking function.
Family Change room x 2	As required	To service all club areas	- Toilet as required. - Hand basin, vanity bench and mirror as required. - Shower. - Include baby change table.
Universal access change room	As required	To service all club areas	- Toilet as required. - Hand basin, vanity bench and mirror as required. - Shower. - Adult change table.
First aid room	15 m^2	From beach	- sink, bench and cupboard.
First aid room store	5 m^2	From first aid room	- Motion sensor light.
Cleaner room	5 m^2	As required	- Include cleaning trough sink, shelving. - Motion sensor light and exhaust fan.
Surf storage – ski	230 m^2	From beach	- Sealed non-slip concrete floor.
Surf storage – inflatable	15 m^2	From beach	- Sealed non-slip concrete floor.

Component	Size (min)	Access / location	Main features
rescue boat (IRB)			
Surf storage – repair	10 m^2	From beach	- Sealed non-slip concrete floor.
Surf storage – boats	160 m^2	From beach	- Sealed non-slip concrete floor.
Surf storage – boards	75 m^2	From beach	- Sealed non-slip concrete floor.
Surf storage – gear	40 m^2	From beach	- Sealed non-slip concrete floor.
Bin store	10 m^2	Truck access from car park	- Accessible for bin removal trucks. - Include bin wash down facilities.
Public areas			
Male toilets and change rooms	As required	Public access From beach	- Shower cubicles as required (to include doors, benches and hanging space). - Toilets (including ambulant) as required. - Hand basins, vanity bench and mirrors as required. - Change area bench and hooks - Vandal proof fit-out. - Set up with City's automated timer system.
Female Toilets and change rooms	As required	Public access From beach	- Shower cubicles as required (to include doors, benches and hanging space). - Toilets (including ambulant) as required. - Hand basins, vanity bench and mirrors as required. - Vandal proof fit-out. - Set up with City's automated timer system.
Universal access toilet and change room	As required	Public access From beach	- Toilet as required. - Hand basin, vanity bench and mirror as required. - Shower. - Adult change table. - Vandal proof fit-out. - Set up with City's automated timer system.
Commercial area			
Commercial area	350 m^2	Separate component and access to club and public facilities	- Separate entrance to club area. - To include kitchen / bar and toilet facilities as required to be managed separate to club area. - Include lift if required. - Potential location above club area (first floor). - View to beach.

Component	Size (min)	Access / location	Main features
Other			
Parking			- Include additional car parking bays using part 5.6.1 of the City's *Commercial, Mixed Use and Service Commercial Zone Local Planning Policy* which provides parking standards that could be applied to determine additional car parking required. Additionally, part 5.6.2 of the policy provides general guidance on car park location and design, including relevant considerations in relation to pedestrian and vehicle access. - Meet Australian Standards (AS2890.1) in relation to accessibility; number of car parks required; dimensions of car parks; aisle widths/ dimensions; ACROD parking facilities and layouts; turnaround facilities and blind aisle requirements if applicable. - Include lighting and tree provision in line with City requirements.
Heating / cooling			- Reverse cycle heating / cooling system to all internal areas except storerooms.
Hot water system			- Solar hot water system with electric / gas booster.
Photovoltaic panels (PV)			- Investigate inclusion of a PV panel system.
Lighting / security			- Include photoelectric (PE) cell controlled perimeter lighting. - Include building alarm system with power integration with the security system to turn lights and heating / cooling off when arming the alarm. - Install emergency evacuation lighting to building as required.
General design requirements			- Operational items - soap dispensers/ light switches/ handles etc are located within easy reach of children/wheelchair users (at height between 900-1100mm). - Designed and built in accordance with the Access to Premises Standards 2010. - Designed to comply with the requirements of the Health (Public Buildings) Regulations 1992. - Environmental sustainability design features. - Access and Inclusion principles. - Minimise whole of life costs. - Energy efficiency considerations where possible and practical.

ATTACHMENT 3

	GROUND	FIRST	SECOND	TOTAL
CLUB (MAIN AREAS)	183 m²	521 m²	14 m²	718 m²
CLUB AMENITIES	149 m²	47 m²	0 m²	196 m²
CLUB STORAGE & CIRCULATION	715 m²	171 m²	0 m²	886 m²
COMMERCIAL AREA	0 m²	421 m²	0 m²	421 m²
PUBLIC AMENITIES	200 m²	0 m²	0 m²	200 m²
	1,247 m²	1,160 m²	14 m²	2,421 m²

*NOTE: THE ABOVE EXCLUDES AREAS REQUIRED FOR STAIRS AND LIFT.

WEST COAST DRIVE

EXISTING PEDESTRIAN & CYCLIST SHARED PATH

EXISTING CAR PARK REMOVED (18 CAR BAYS)

5 CAR BAYS TO BE REMOVED

EXISTING PEDESTRIAN & CYCLIST SHARED PATH

LOT BOUNDARY

MAIN ENTRY

LOT BOUNDARY

PEDESTRIAN ACCESS

PEDESTRIAN CROSSING

SCREENINGS

SERVICE / DELIVERY

EXISTING TOILETS TO BE REMOVED

NEW PATH

NEW PUBLIC AMENITIES TO REPLACE EXIST. NORTHERN & SOUTHERN PUBLIC TOILET FACILITIES

NEW SURF CLUB DEVELOPMENT

PEDESTRIAN ACCESS

LOT BOUNDARY

15 NEW CAR BAYS

TOTAL 69 NEW CAR BAYS

14 NEW CAR BAYS

20 NEW CAR BAYS

20 NEW CAR BAYS

REDIRECT PEDESTRIAN & CYCLIST ROUTE

SURF CLUB COURTYARD

LOT BOUNDARY

VEHICLE ACCESS

SURF CLUB BREAKOUT SPACE

NEW WASHDOWN AREA

LOT BOUNDARY

LOT BOUNDARY

EXISTING BUILDIN TO BE REMOVED

WIDEN PATH

NEW SEA WALL

EXISTING PATH & STAIRS

2065 EROSION

NEW SEA WALL

NEW RAMP

PROTECTED DUNES

PROTECTED DUNES

EXISTING BEACH ACCESS RAMP TO BE REMOVED

EXISTING WASH DOWN AREA TO BE REMOVED

EXISTING SEA WALL

2115 EROSION

PROVIDE SPEED HUMPS TO DETER CYCLIST GOING THRU AT HIGH SPEED

2015 EROSION

NEW BEACH ACCESS RAMP

Option One: New Building

NOTE: OVERALL GAIN OF 46 NO. CAR BAYS

Site Plan 1:500 @A3

SORRENTO SURF CLUB

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City of Joondalup

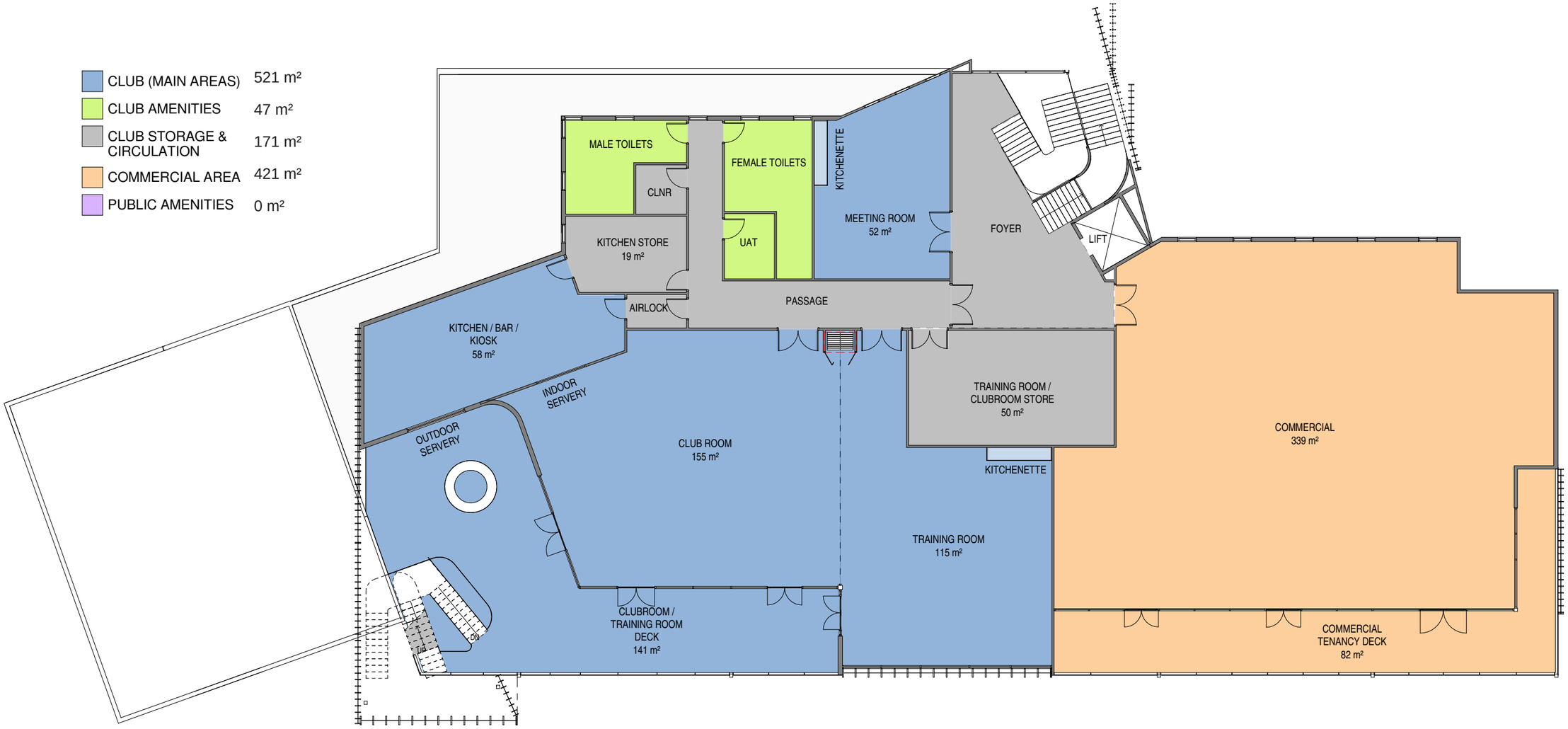
29 October 2020

Hodge Collard Preston ARCHITECTS

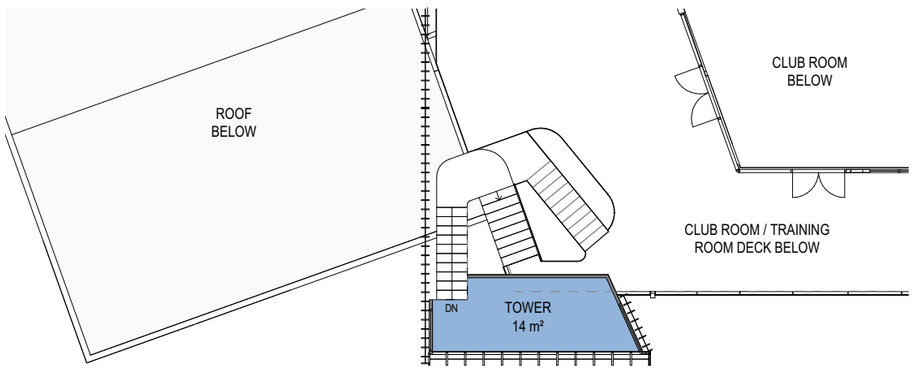
CLUB (MAIN AREAS)	183 m²
CLUB AMENITIES	149 m²
CLUB STORAGE & CIRCULATION	715 m²
COMMERCIAL AREA	0 m²
PUBLIC AMENITIES	200 m²

GROUND FLOOR

CLUB (MAIN AREAS)	521 m²
CLUB AMENITIES	47 m²
CLUB STORAGE & CIRCULATION	171 m²
COMMERCIAL AREA	421 m²
PUBLIC AMENITIES	0 m²

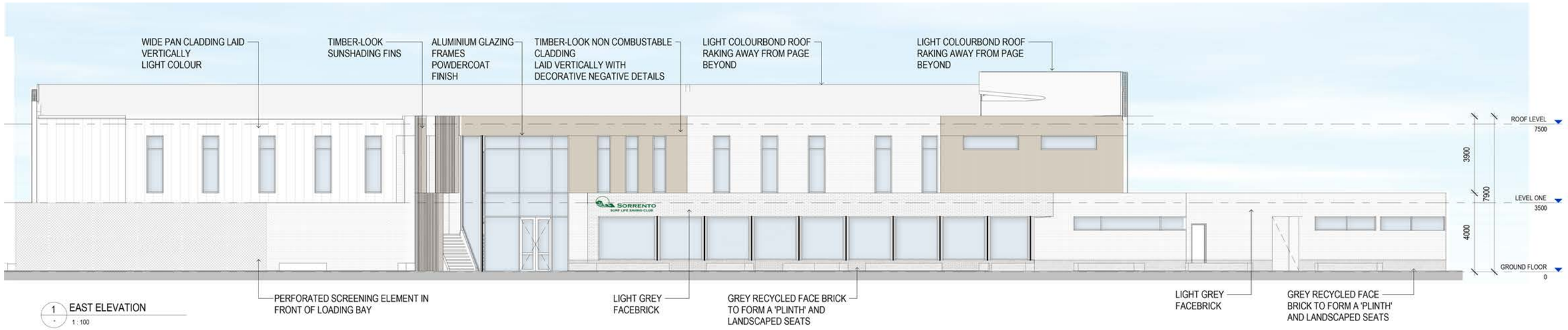


FIRST FLOOR

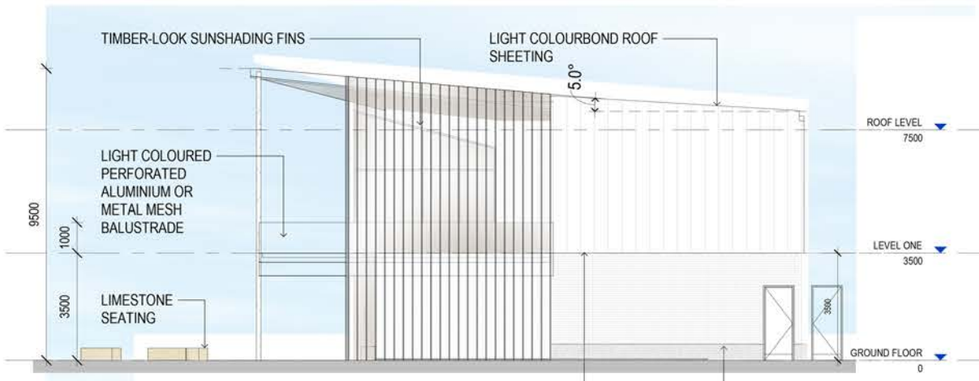


CLUB (MAIN AREAS)	14 m²
CLUB AMENITIES	0 m²
CLUB STORAGE & CIRCULATION	0 m²
COMMERCIAL AREA	0 m²
PUBLIC AMENITIES	0 m²

SECOND FLOOR

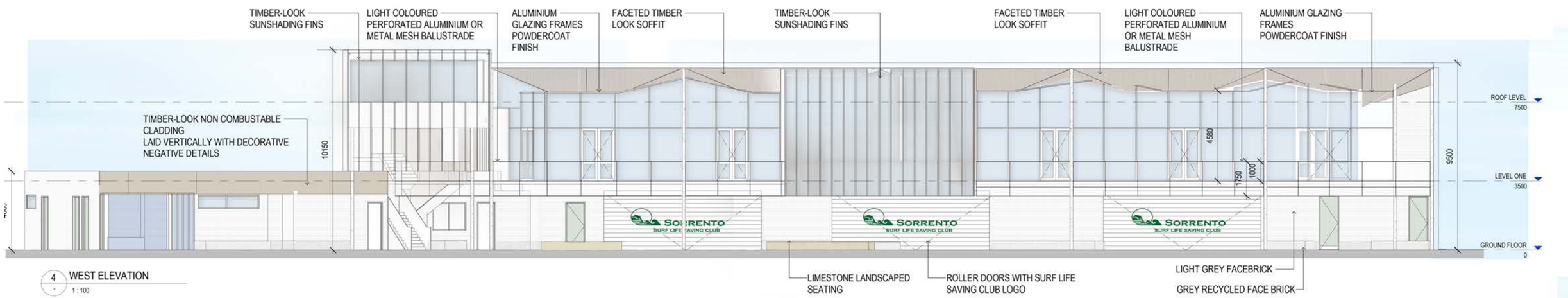


1 - EAST ELEVATION
1 : 100



2 - SOUTH ELEVATION
1 : 100

3 - NORTH ELEVATION
1 : 100



4 - WEST ELEVATION
1 : 100

Entry from W Coast Drive

Entry from W Coast Drive - Fitness Centre Entrance

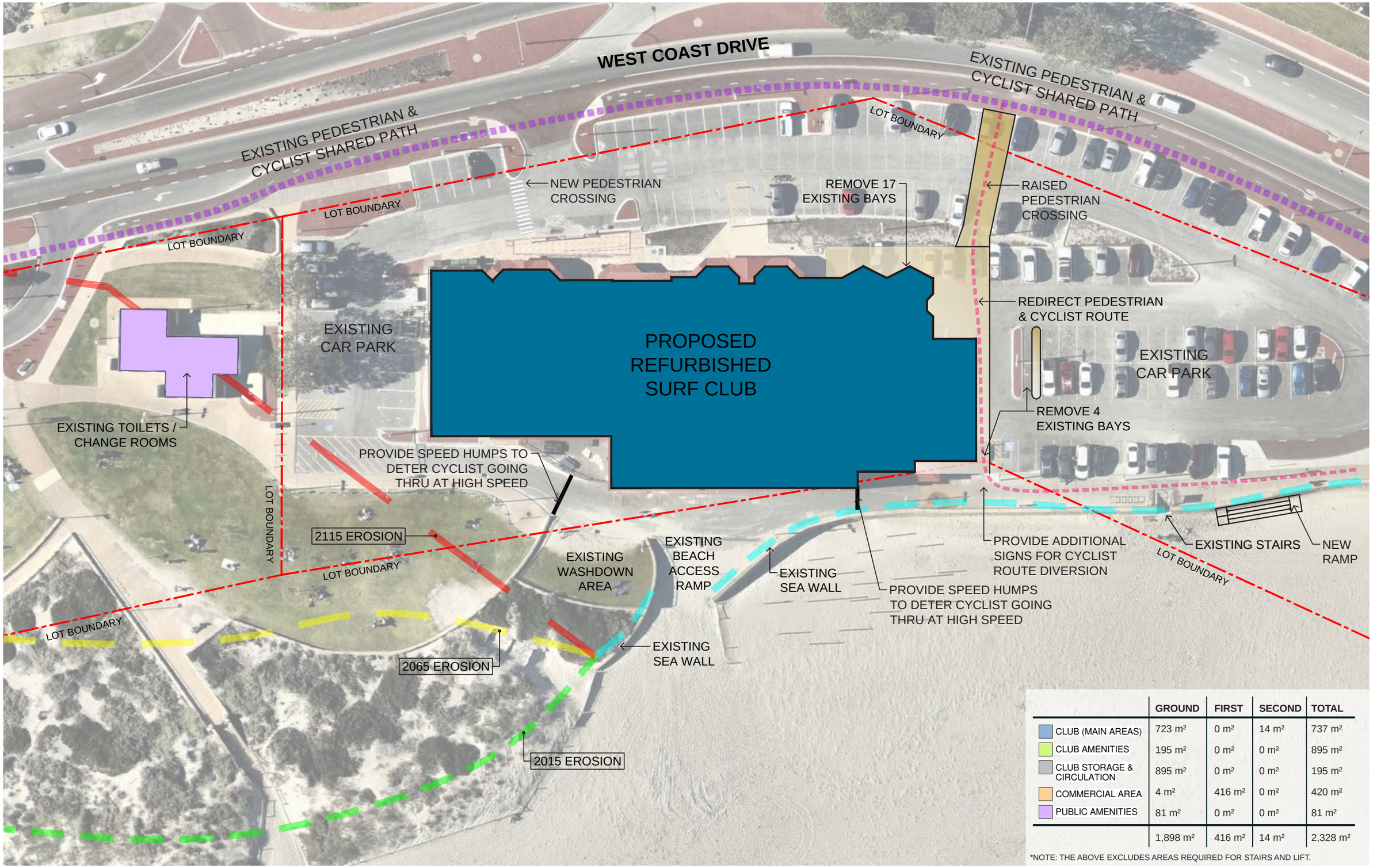
View from the beach

View from Beach - Showers and Amenities

Sorrento Surf Life Saving Club

Indicative Cost Options - Revised **Option 1: New Building (Summary) - Issue 2.0**

Item	Description	Qty	Unit	Rate	Total
	ITEMISED COST BREAKDOWN				
	The following Itemised Costs are inclusive of Preliminaries, Design & Construction Contingencies and Professional Fees, but exclusive of Escalation		*Note*		
1	DEMOLITION & SITE PREPARATION				223,200
2	CLUB AREAS				6,152,600
3	PUBLIC AMENITIES				750,400
4	COMMERCIAL AREA				920,500
5	CAR PARKING WORKS				290,000
6	FOOT/CYCLE PATH MODIFICATIONS				100,000
7	EXTERNAL WORKS (Sea walls, beach access, etc.)				330,000
8	ARTWORK				81,200
	ESTIMATED TOTAL COMMITMENT (At Current Prices)				**8,847,900**



	GROUND	FIRST	SECOND	TOTAL
CLUB (MAIN AREAS)	723 m²	0 m²	14 m²	737 m²
CLUB AMENITIES	195 m²	0 m²	0 m²	895 m²
CLUB STORAGE & CIRCULATION	895 m²	0 m²	0 m²	195 m²
COMMERCIAL AREA	4 m²	416 m²	0 m²	420 m²
PUBLIC AMENITIES	81 m²	0 m²	0 m²	81 m²
	1,898 m²	416 m²	14 m²	2,328 m²

*NOTE: THE ABOVE EXCLUDES AREAS REQUIRED FOR STAIRS AND LIFT.

Option Two: Refurbish Existing
NOTE - OVERALL LOSS OF 21 NO. CAR BAYS

Site Plan 1:500 @A3

SORRENTO SURF CLUB

N

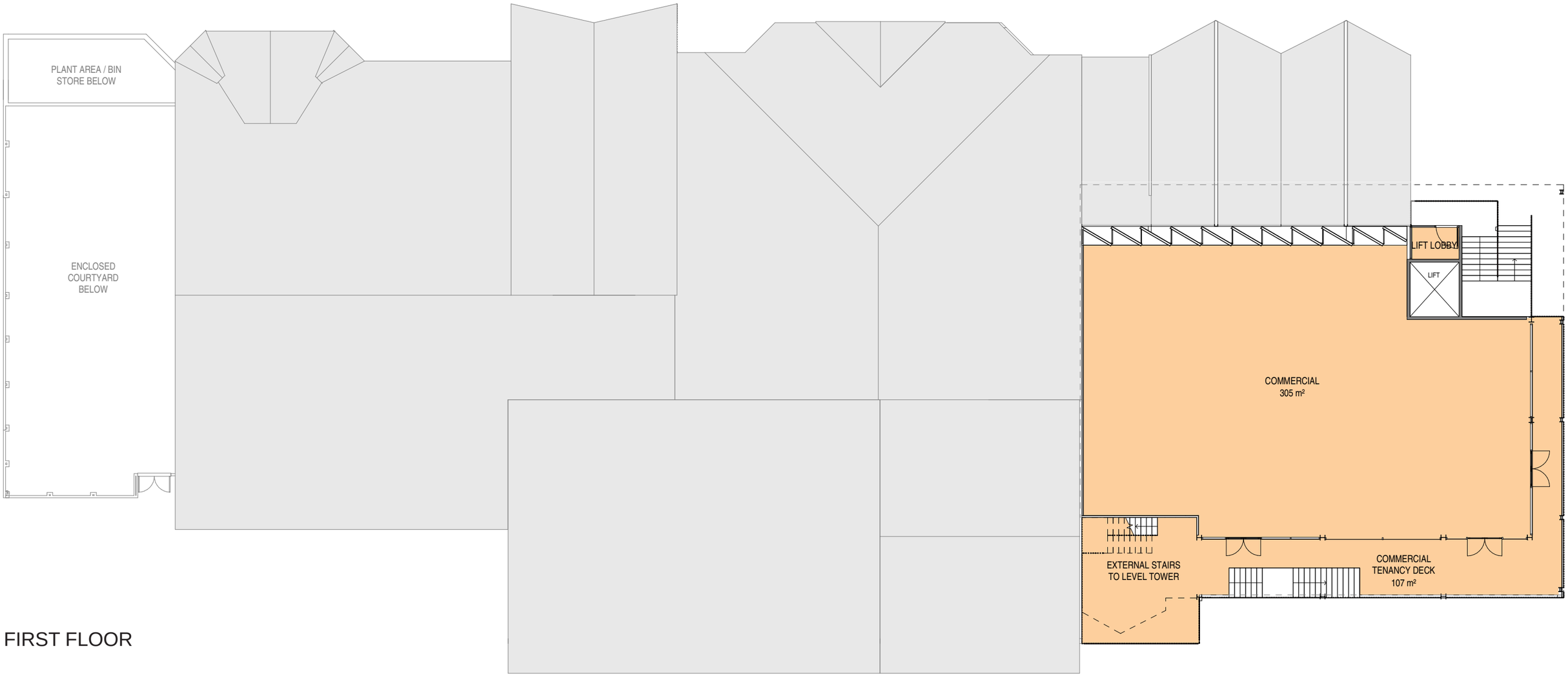
City of Joondalup
29 October 2020

Hodge Collard Preston ARCHITECTS

CLUB (MAIN AREAS)	723 m²
CLUB AMENITIES	195 m²
CLUB STORAGE & CIRCULATION	895 m²
COMMERCIAL AREA	4 m²
PUBLIC AMENITIES	81 m²

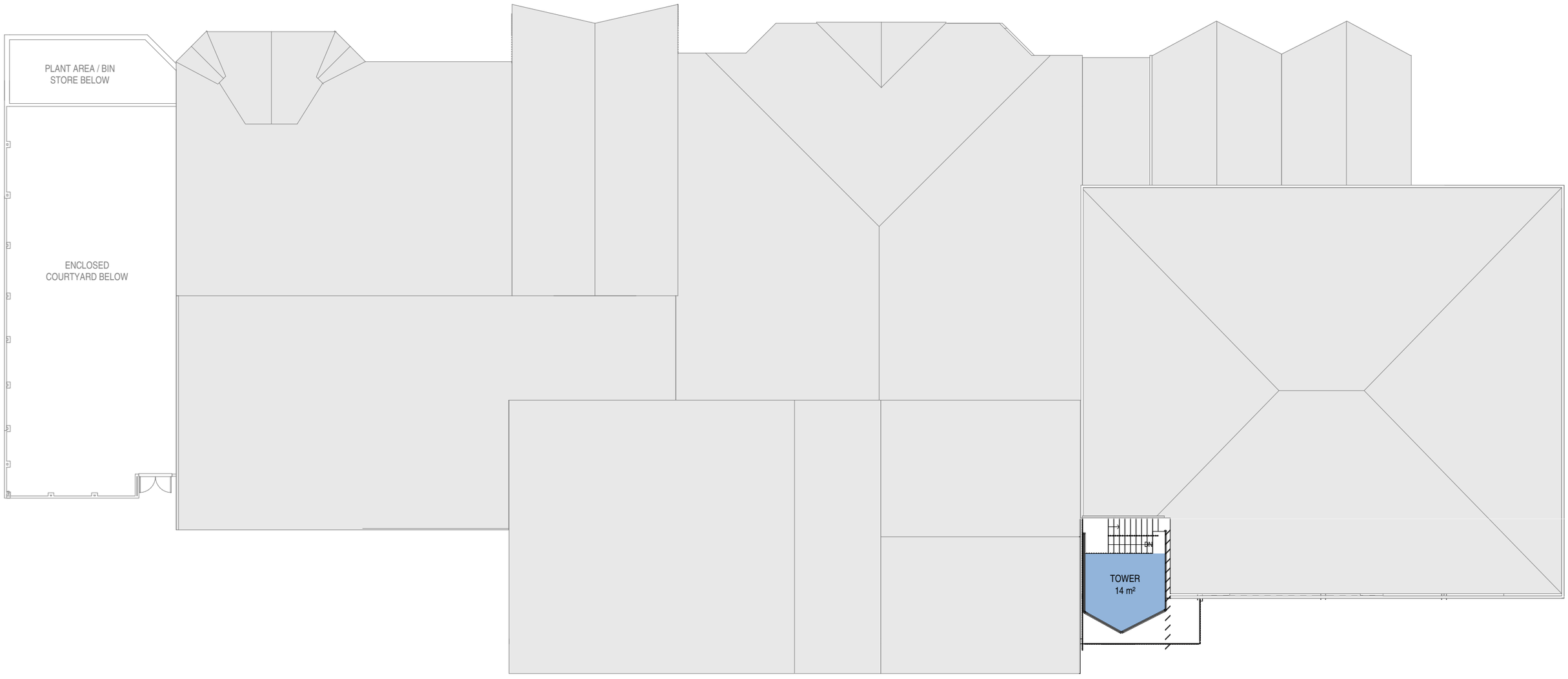
GROUND FLOOR

CLUB (MAIN AREAS)	0 m²
CLUB AMENITIES	0 m²
CLUB STORAGE & CIRCULATION	0 m²
COMMERCIAL AREA	416 m²
PUBLIC AMENITIES	0 m²



FIRST FLOOR

CLUB (MAIN AREAS)	14 m²
CLUB AMENITIES	0 m²
CLUB STORAGE & CIRCULATION	0 m²
COMMERCIAL AREA	0 m²
PUBLIC AMENITIES	0 m²



Option Two: Refurbish Existing

Second Floor Plan 1:100 @ A1 1:200 @A3

SORRENTO SURF CLUB

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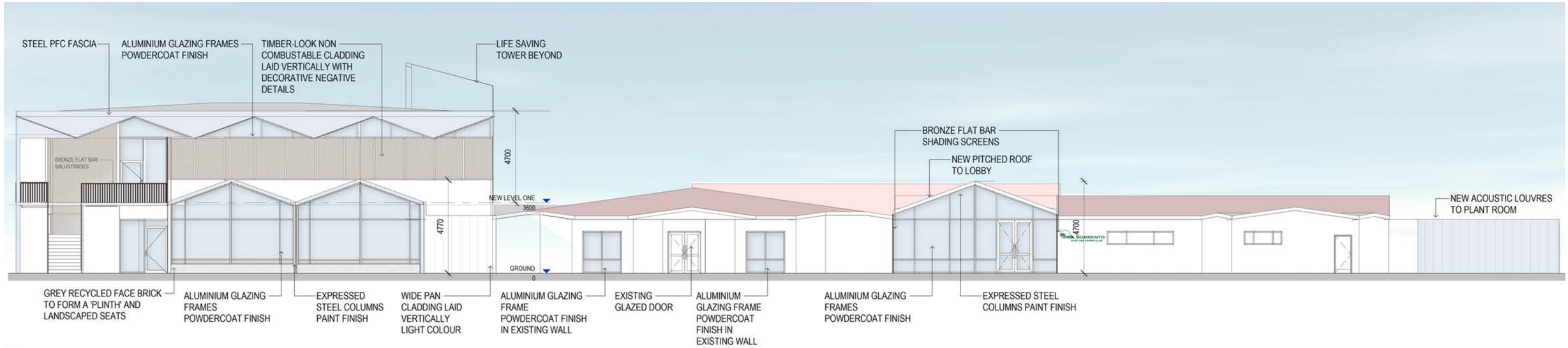
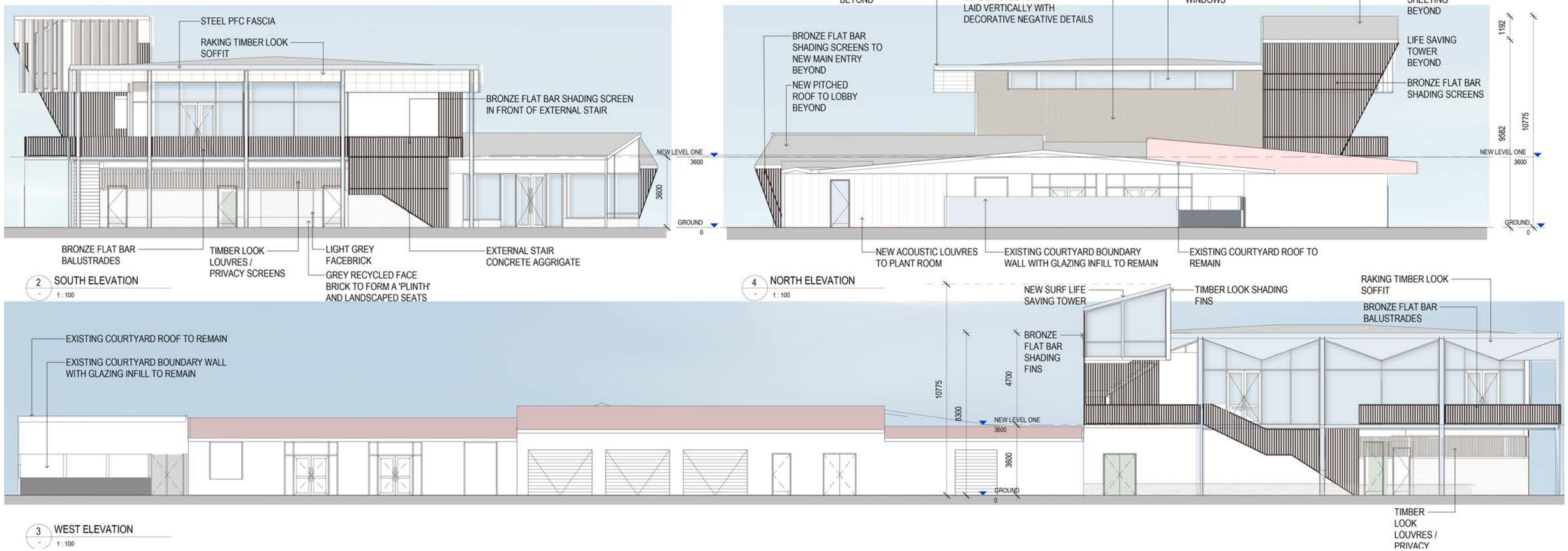
City of Joondalup

29 October 2020

Hodge Collard Preston ARCHITECTS



1 - EAST ELEVATION
1 : 100



2 - SOUTH ELEVATION
1 : 100

4 - NORTH ELEVATION
1 : 100

3 - WEST ELEVATION
1 : 100

Entry from W Coast Drive

Fitness Club & Commercial Tenancy Entrance

View from the beach

Sorrento Surf Life Saving Club

Indicative Cost Options - Revised **Option 2: Refurbish Existing (Summary) - Issue 2.0**

Item	Description	Qty	Unit	Rate	Total
	ITEMISED COST BREAKDOWN				
	The following Itemised Costs are inclusive of Preliminaries, Design & Construction Contingencies and Professional Fees, but exclusive of Escalation		*Note*		
1	DEMOLITION & SITE PREPARATION				138,000
2	CLUB AREAS				3,167,400
3	PUBLIC AMENITIES				343,000
4	COMMERCIAL AREA				1,440,700
5	CAR PARKING WORKS				58,900
6	FOOT/CYCLE PATH MODIFICATIONS				4,500
7	ARTWORK				47,700
	ESTIMATED TOTAL COMMITMENT (At Current Prices)				**5,200,200**

Project Name	**Sorrento Surf Life Saving Club (SSLSC)**
Report	**Preliminary Financial evaluation (2020)**
Project Sponsor	Director Corporate Services
Project Manager	Manager Leisure and Cultural Services
Joondalup 2022 Key Theme	Community Wellbeing – Quality facilities.
HP Records	INT20/49293

VERSION CONTROL

	Date	Author	Details
1	23 Oct 2020	SFA	First draft to LCS for review
2	18 Nov 2020	SFA	Second draft, updated OPC and Concept Design
3	18 Feb 2021	SFA	Options aligned to main report

CONTENTS

INTRODUCTION

1. INTRODUCTION AND BACKGROUND

1.1 Purpose of paper

This report is prepared in support of the ELT Report (December 2020) and upcoming Council report (early 2021) for the SSLSC. The SSLSC have submitted a business case for the refurbishment or redevelopment (new build) of the Surf Club and public facilities. The City has prepared a revised concept design for refurbishment or redevelopment and obtained indicative capital costs. This report evaluates the financial impacts to the City of Joondalup.

1.2 Out of scope

This report is not a business case, but a preliminary financial evaluation based on the current available data at this point in time. This report does not make an outright recommendation to refurbish or redevelop, a lot more work is required before any outright recommendation can be made. The following are out of scope:

- Procurement plan;
- Risk management plan;
- Project management plan;
- Business case;
- Club financial sustainability (this will be subject to evaluation as part of future business case); and
- Asset management plan.

This evaluation only includes cash flows that are directly relevant to the City. There are other income and expense items which are assumed to be owned by the Club e.g. fees for hiring out training rooms.

1.3 Strategic Financial Plan (SFP)

The potential financial impacts to refurbish or redevelop are not included in the City's SFP. This report does not propose that the potential impacts should yet be included in the SFP. The potential impacts should only be included in the SFP after the project objectives have been endorsed by Council, detailed design has been prepared, a business case has been prepared which evaluates the options versus the project objectives and council have approved the recommended option.

1.4 Whole of life incremental 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; indeed the recurring impacts are more important than the initial establishment costs.
The analysis evaluates options on an incremental basis by comparing to existing operating values (the baseline). Each option on an individual basis is likely to result in an operating deficit, but the key issue is to compare the operating deficit with the existing baseline deficit and whether any of the new options have a lower deficit.

1.5 Disclaimer

This report does not contend that the financial projections will come to pass exactly as stated but are merely intended to give an early indication. The projections are best estimates at this point in time but there is a level of risk and uncertainty in all the projections. The actual costs and income will vary, due to the following:

- Detailed design and specification (only concept design has been prepared so far);
- Capital replacement estimates;
- Retail needs analysis and market appetite for a commercial lease;
- Business case;
- Tender;
- Economic factors.

The financial projections will be updated at each key stage of the project so that the confidence of the assumptions improves. At this early stage in the project, the financial estimates have a great deal of uncertainty.

1.6 Previous financial evaluation (2018)

A financial evaluation for this project was prepared in 2018. The foundation of this was a concept design and QS costings prepared by the Club. Since then the City has taken control of the project and prepared a revised concept design (with input and agreement from the Club).

1.7 Data

There is a wide range of financial data referred to in this document. Data will either be shown in Dollars ($), thousands (‘$000s’) or where necessary in millions ($m), depending on the size of the values being referred to. All financial tables will be clearly labelled to designate the format.

1.8 Values

Each section will initially review all the assumptions in today’s dollars (2020). However, all values will then be escalated to take account of inflation so that the overall costs over a 40-year period can be assessed.

1.9 Model

The financials are summarised using the City’s Project Financial Evaluation Model (Detailed), (01 July 2020).

2 SOURCE OF DATA, OPTIONS AND KEY ASSUMPTIONS

2.1 Source of data

The key source documents/data in the financial evaluation are:

- Concept design – which has been used to prepare indicative cost estimates by RW Quantity Surveyors.
- Funding - This report uses those indicative cost estimates and then applies some funding assumptions for club contribution, external grants and city contribution.
- Operating expenses - the existing operating assumptions, including depreciation, for the club building and public facilities, have been used to establish the baseline, this has then been used extrapolate to the other options.
- Commercial income - rental income assumptions have been sourced with reference to other City Projects.

All values used in the model will be explained in this report.

2.2 Options shortlisted

The City worked with the Club to evaluate numerous options in 2017 and 2018, eleven Options were initially evaluated, these are documented in full within the Club Business Case. The eleven options were scored, and five options were shortlisted and used in the 2018 Financial Evaluation. The 2020 Financial Evaluation has further reduced the options to three as follows:

- Option 1 (redevelop) - Redevelopment - demolition of existing club building and north toilet block, rebuild.
- Option 2 (refurbish) – Refurbish - partial demolition and extension of existing facility
- Option 3 (do nothing) - continue with the existing Club building and public facilities

2.3 Options scope

The key differences between the options are summarised in the table below and explained as follows:

- Public Toilets / Changerooms. At present there are two public toilets/changeroom, there is a separate block to the north and then an area that is part of the Club building (to the south). Option 2 (refurbish) would be similar to the existing arrangements but option 1 (redevelop) would remove the separate block and incorporate larger public changerooms within the Club building.
- Commercial area for both option 2 (refurbish) and option 1 (redevelop) – this would be an area leased out by the City for a café/restaurant providing a new income stream to the city and helping to offset the additional operating expenses of a larger club building.

Option Scope		Option 1 Redevelop	Option 2 Refurbish	Option 3 As Is
A	Public Toilets / Changerooms (separate building to the north)		✔	✔
B	Public Toilets / Changerooms (as part of the Club building)	✔	✔	✔
D	Commercial area leased by the City	✔	✔	

2.4 Do nothing option

The Club contend that the current facilities are inadequate both now and into the future. The City have also reviewed the Do Nothing and acknowledge that there are major shortcomings in the existing building/site, these were documented in the 2018 report. Both option 2 (refurbish) and option 1 (redevelop) would remedy these shortcomings.

2.5 Key financial assumptions

The table below lists some of the other key assumptions within the financial model:

	Assumption	Value	Comments
1	Ready for Service	July 2025	o The analysis assumes that the facility is ready by July 2025 o This timescale is based on an indicative project schedule but at this stage is merely an assumption for financial modelling, the potential timescales will need to be subject to further detailed planning
2	Phasing Capital Costs	2023-24 & 2024-25	o The model has assumed 1/3 of the one-off costs in 2023-24 and the remaining 2/3 in 2024/25 o These assumptions would need to be refined at a later point
3	Phasing External Funding	As above	o The project currently assumes grant funding from CSRFF and Lottery West which is split between the two years of construction o Club contribution is also spread over two years
4	Financial Evaluation Period	40 Years	o The analysis evaluates the cash flows over a 40-year operating period, from 2025-26 to 2064-65. o The long timeframe is necessary to ensure that the long-term implications are fully considered, and ensures that capital renewal expenditure can be included in the evaluation
5	Escalation– Assumptions	10 Year SFP 2020	The 2020 SFP, as noted by Council October 2020, includes the most up-to-date escalation assumptions. These have been incorporated into the Projects Financial Evaluation Model.
6	Borrowing Terms	10 Year SFP 2020	The 2020 SFP, as noted by Council October 2020, includes the most up-to-date WATC (West Australia Treasury Corporation) borrowing assumptions. These have been incorporated into the Projects Financial Evaluation Model.

2.6 Area analysis

The financial model has broken down all inputs to the model in 3 areas of responsibility

- Public Toilets / Changerooms – City responsibility
- Club – joint responsibility between City (building replacement, reactive/structural maintenance) and Club (day to day maintenance and cleaning)
- Commercial – funded and leased by the City.

This analysis will be useful to see the benefits of rationalising public toilets into one area, as well as identifying the benefits of the commercial area which effectively subsidise the club component.

ESTABLISHMENT PHASE

3 PROJECT COSTS

3.1 Sunk costs

The City has incurred approximately $30k sunk costs in developing the most up-to-date concept plan and indicative QS costings. The Club has also incurred some sunk costs in the estimation of capital costs, development of concept plans and preparation of business case.

3.2 Capital costs excluding escalation

The table below summarise the total one-off costs to establish each option 2 (refurbish) and option 1 (redevelop). Line items 1 to 6 derive from the Indicative QS Costings, Lines 7 and 8 are a City estimate of the temporary facilities that may have to be provided.

One-off Costs Total excluding inflation		Option1 Redevelop	Option2 Refurbish
1 Construction - Public Toilets / Changeroom	*$000s*	($628)	($267)
2 Construction - Club building	*$000s*	($5,050)	($2,447)
3 Construction - Commercial	*$000s*	($772)	($1,127)
4 Fees & External - Public Toilets / Changeroom	*$000s*	($234)	($94)
5 Fees & External - Club building	*$000s*	($1,877)	($866)
6 Fees & External - Commercial	*$000s*	($287)	($399)
7 Temporary Facilities - Public Toilets / Changeroom	*$000s*	($16)	($16)
8 Temporary Facilities - Club building	*$000s*	($18)	($123)
One-off Costs	***$000s***	**($8,882)**	**($5,340)**

3.3 Exclusions

The capital costs include approximately 17.5% of contingencies (7.5% Design and 10% Construction) so there may be opportunities for reduced expenditure as the project evolves. At this early stage in the planning process there are a number of standard exclusions which may consume the contingencies. Some of the exclusions are:

- Demolition of and/or excavation of contaminated materials
- Upgrading existing site services
- Sustainability initiatives
- Soft landscaping
- Fit-out of commercial kitchen (this would continue to be an exclusion going forward because it would be expected that the café/restaurant would be fitted out by the operator)

If the project moves forward to future stages (i.e. detailed design) the exclusions will be further reviewed.

3.4 Phasing and escalation

As explained earlier the phasing has been split over two years, this is a working assumption only at this point. Escalation is then applied within the financial model to each year. The table below indicates how the one-off costs excluding escalation are then assumed to increase due to potential escalation.

One-off Costs Overall Totals		Option1 Redevelop	Option2 Refurbish
Excluding Escalation	*$000s*	($8,882)	($5,340)
% Escalation Factor	*%*	103%	103%
Including Escalation	***$000s***	**($9,136)**	**($5,492)**

The costs including escalation (bottom row in table above) are used as the basis of the funding evaluation as explained in the next section.

3.5 Write-off

All options (excluding the Do Nothing option) would result in an impairment of assets which would result in a one-off impact to the operating results in the year of impairment. The estimated impacts are:

- Option 2 (refurbish) - $1.2m to $1.5m
- Option 1 (redevelop) - $1.5m to $2.0m

4 FUNDING

4.1 Potential CSRFF grant funding

An estimate of potential grant funding from the State Governments Community Sporting and Recreation Facilities Fund (CSRFF) has been developed for each option. The analysis takes account of the components which may be considered eligible by CSRFF. The elements mostly likely to be eligible for funding are areas for physical exercise in a sporting/organised environment. Therefore the other areas for life-saving or recreational are not eligible and as a result there is less than 40% assumed to be eligible. The table below shows the estimated CSRFF funding.

Potential CSRFF Grant Funding		Option1 Redevelop	Option2 Refurbish
1 Capex estimate (excluding temporary facilities and escalation)	*$000s*	$8,848	$5,201
2 % of Building that may be eligible	*%*	37%	34%
3 Eligible components	*$000s*	$3,300	$1,743
4 Potential 1/3 CSRFF Funding	*$000s*	$1,100	$581

4.2 Potential Lottery West grant funding

An estimate of potential grant funding from Lottery West has been developed for each option. The analysis takes account of the components which may be considered eligible by Lottery West which may relate to the life-saving areas, approximately 17% for Option 1 and 21% for Option 2. The table below summarises the potential Lottery West funding.

Potential Lottery West Grant Funding		Option1 Redevelop	Option2 Refurbish
1 Capex estimate (excluding temporary facilities and escalation)	*$000s*	$8,848	$5,201
2 % of Building that may be eligible	*%*	17%	21%
3 Eligible components	*$000s*	$1,489	$1,113
4 Potential Lottery West Grant Funding	*$000s*	$496	$371

4.3 External funding summary

In addition to CSRFF, it is also assumed that the Club would contribute 10% of the Club capital costs and temporary facilities. The table below summarises the overall external funding assumptions currently assumed.

Club Contribution & Potential Grants		Option1 Redevelop	Option2 Refurbish
1 Club contribution	*$000s*	$695	$344
2 CSRFF	*$000s*	$1,100	$581
3 Lottery West	*$000s*	$496	$371
4 Total Club Contribution and Potential Grants	*$000s*	$2,291	$1,296

4.4 City funding

The financial evaluation has assumed borrowings would be required to fund the City's portion. This is a prudent and standard approach within the city's financial evaluation processes so that a cost of interest payments is included within the model. Ideally the City would fund its share of the one-off costs using reserves, but this would still result in cost of finance i.e. lost interest earnings and hence by factoring in borrowings to the model is including an alternative cash expense for funding.

The table below summarises the overall funding assumptions. The starting point in Line 1 is the capital expenditure including escalation from previous section. The estimated contribution and grants income are then deduced from this to calculate the remaining amount to be funded by the City as borrowings. Line 4 then shows the interest cost associated with the borrowings and Line 5 shows the overall cost of the borrowings (principal + interest). The borrowings are assumed to be on a 5 year fixed repayment (principal and interest) terms with an assumed rate in 2023/24 of 2.02% and then increasing to 2.48% for 2024-25.

Establishment Cost (including inflation)		Option1 Redevelop	Option2 Refurbish
1 One-off Costs	*$000s*	($9,136)	($5,492)
2 Grants, Proceeds, Reserves	*$000s*	$2,291	$1,296
3 Net Funding Required	*$000s*	($6,845)	($4,197)
4 Interest on Borrowings	*$000s*	($607)	($372)
5 Establishment Cost	*$000s*	($7,452)	($4,569)

Note that the interest costs are an operating expense and will therefore impact on the operating deficit for the five years of the repayment.

OPERATING ANALYSIS

5 RECURRING EXPENSES

5.1 Estimated costs per year 2025-26 onwards

The table below summarises the annual cash expenses included in the model from 2025-26 onwards. The source of the figures is as follows:

- Option 3 is based on the existing costs of the three buildings, using the data within the Finance One System, the values are based on the average of the last five years.
- Options 1 and 2 are mostly based prepared by reference to Option 3 as follows:
  - Square Metres differences used as starting point for reactive maintenance, utilities and insurance.
  - 20% improvement (reduction) is factored into reactive maintenance and utilities as the refurbished or redeveloped facility would be of a more modern specification
  - Insurance estimates are based on the current replacement costs, as explained in later section
- Outgoings for commercial area are based on a rate of $125 per m2. This is a standard value proposed by an external consultant in advising the Burns Beach Café/Kiosk/Restaurant development and includes day to day maintenance/insurance.

There are several blank values in the table below, these are intentional and explained as follows:

- Building maintenance for Club building is the responsibility of the club
- Utilities for commercial would be the direct responsibility of the operator
- Insurance for commercial area is included in the $125 per m2 outgoings

The final item on the table is the existing payment made by the City each year of $60k, which is given to the Club in support for the beach life saving service they provided and is assumed to continue for all options.

Operating Cash Expenses (2025-26) excluding inflation		Option1 Redevelop	Option2 Refurbish	Option3 As Is
1 Building Maintenance - Public Toilets / Changeroom	*$000s*	($46)	($42)	($43)
2 Building Maintenance - Club building	*$000s*			
3 Outgoings (building maintenance, insurance) - Commercial	*$000s*	($53)	($54)	
4 Reactive Maintenance - Public Toilets / Changeroom	*$000s*	($10)	($14)	($16)
5 Reactive Maintenance - Club building	*$000s*	($31)	($27)	($26)
6 Reactive Maintenance - Commercial	*$000s*	($8)	($8)	
7 Utilities - Public Toilets / Changeroom	*$000s*	($7)	($10)	($11)
8 Utilities - Club building	*$000s*	($30)	($26)	($25)
9 Utilities - Commercial	*$000s*			
10 Insurance - Public Toilets / Changeroom	*$000s*		($1)	($1)
11 Insurance - Club building	*$000s*	($11)	($9)	($9)
12 Insurance - Commercial	*$000s*			
13 Corporate Contribution - Club building	*$000s*	($60)	($60)	($60)
Operating Cash Expenses	***$000s***	**($255)**	**($250)**	**($190)**
vs Baseline	***$000s***	**($65)**	**($60)**	

Note that the table above excludes depreciation which will be covered later and interest on borrowings. Both depreciation and interest on borrowings are operating expenses.

5.2 Value of surf lifesaving duties

At present the City pays approximately $119k per year to Surf Life Saving WA for lifeguard duties during weekdays between December and March at Sorrento Beach and Hillary's Marina. The City has estimated that it would cost a further $122k if it had to replicate the lifesaving services provided by SSLSC.

6 RECURRING INCOME

6.1 Commercial income assumptions

The most significant operating difference between option 1 (redevelop) and option 2 (refurbish) versus the 'as is' scenario is the assumption of a commercial income stream for renting out some of the space for a commercial café or restaurant. The table below summarises the assumptions, which are explained as follows

- Area derives from the concept plans, and for option 1 includes an alfresco area.
- Lease rate of $500 per m2 derives from the financial evaluation of Burns Beach Café/Kiosk/Restaurant
- Income per year is the area multiplied with the $500 per m2. This would assume 100% occupancy.
- Reduction due to vacant or free rent. It is not prudent to assume that for all 40 years the commercial area would be leased and chargeable. There could be some periods where the operator lease expires, and a new operator has to be arranged and set up. Furthermore it is a frequent practice for operators to be given some incentive at the beginning of the lease e.g. 1st year free. The model has therefore built in a 5% vacancy, which equates to 2 years out of 40 years
- The bottom line of the table are the values that are carried into the overall financial evaluation, which take account of the 5% reduction.

Commercial Income Estimates		**Option1** Redevelop	**Option2** Refurbish
Area			
Total Chargeable	m2	421	412
Income at 100% Utilisation			
Lease rate	$ per m2	$500	$500
Income per year	$	210,500	$206,000
Adjustment for vacant / free periods			
Reduction due to vacant or free rent		-5%	-5%
Revised Income per year used for model		**$199,975**	**$195,700**

6.2 Estimated income per year 2025-26 onwards

The table below summarises the annual operating income assumptions, explained as follows:

- Club utility and charge and lease – Option 3 is the average of 2020-21 and 2019-20. Option 1 (redevelop) and option 2 (refurbish) are extrapolated based on the size of club area versus option 3.
- Commercial rental income relates to the paragraph above.
- Outgoings recovered – this relates to the values in previous section, the operating expenses ($125 per m2), which are assumed to be fully recoverable from the tenant.
- Rates income of $30,000 is also derived from Pinnaroo Point and Burns Beach CKR analysis and is based on similar coastal properties in Joondalup.

Operating Income (2025-26) excluding inflation		Option1 Redevelop	Option2 Refurbish	Option3 As Is
1 Club Utility Charge & Lease - Club building	*$000s*	$45	$39	$38
2 Commercial Income - Commercial	*$000s*	$200	$196	
3 Outgoings (maintenance, insurance) recovered	*$000s*	$53	$54	
4 Rates - Commercial	*$000s*	$30	$30	
Operating Income	***$000s***	**$327**	**$318**	**$38**
vs Baseline	***$000s***	**$290**	**$281**	

7 DEPRECIATION & CAPITAL RENEWAL

7.1 Current Replacement Costs

The table below summarises the estimated Current Replacement Costs for each option, these provide the basis of the estimated Depreciation and Capital Replacement Costs per year. The source of the Current Replacement Costs is:

- Option 3 – all values for the 3 areas derive from the valuation within the City's asset register as at 30th June 2020. The south toilets are part of the club building but are recognised separately in the City's asset register.
- Option 1 (redevelop) just comprises of the new capital costs as explained earlier.
- Option 2 (refurbish) – there are 3 elements. Firstly the same value for the north toilet block as option 3. The second item (line 3), relates to the existing club building and a high-level estimate that $1.5m of the $3.6m valuation would remain. The final element is the additional works of $5.2m

	Current Replacement Costs	**Option1** Redevelop	**Option2** Refurbish	**Option3** As Is
	Existing Buildings			
1	North Toilets/Changeroom		$422,700	$422,700
2	South Toilets	$0		$362,821
3	Surf Club Existing (incl. Public area)	$0	$1,500,000	$3,625,349
4	New Buildings & Infrastructure	$8,847,900	$5,200,500	
5	**Current Replacement Cost Total**	**$8,847,900**	**$7,123,200**	**$4,410,870**

7.2 Estimated Depreciation and Capital Replacement Costs per year

The table below summarises the estimated annual depreciation / capital replacement cost for each option per year. The values are derived as follows:

- Option 3 depreciation of $52,445 relates to the budget depreciation charge for 2020/21.
- Option 1 (redevelop) just applies the 1.5% depreciation rate against the new current replacement costs of $8.8m.
- Option 2 (refurbish) has 3 elements which are based on the current replacement costs above. The north toilets depreciation is the same as option 1. The second item is the estimated depreciation for the remaining club building which is based on the reduced current replacement cost of $1.5m. The additional current replacement costs of $5.2m have been multiplied with a rate of 1.5%. The current depreciation rate for the existing building is 1.2%, so 1.5% is a higher estimate. A componentised depreciation rate of 1.7% was calculated in the 2018 evaluation but this exercise cannot be repeated for now as the indicative costings are high-level, and not broken down by component. A rate of 1.5% is not as high as the 1.7% but not as low as the current rate.

	Depreciation and Capital Replacement per year	Option1 Redevelop	Option2 Refurbish	Option3 As Is
	Existing Buildings			
1	North Toilets/Changeroom		($3,900)	($3,900)
2	South Toilets			($1,000)
3	Surf Club Existing (incl. Public area)		($17,835)	($47,545)
4	**Existing Buildings Total Depreciation**		**($21,735)**	**($52,445)**
5	Depreciation Rate %			-1.2%
	New Buildings			
6	Depreciation Rate %	-1.5%	-1.5%	
7	**New Buildings Depreciation**	**($132,719)**	**($78,008)**	
8	**Depreciation Total**	**($132,719)**	**($99,742)**	

7.3 Treatment in the model for depreciation and capital renewal

The financial model calculates a depreciation charge on a straight-line basis which is consistent with city treatment of current assets. The depreciation values are also used as the basis of the capital renewal cash assumptions i.e. an equal amount each year. In reality the actual cash required for renewal will depend on condition, usage, specification and there will be intermittent amounts e.g. fixtures and fittings may require partial replacement after 12 or 16 years. The straight-line method for capital renewal is applied within the financial model for several reasons:

- Consistency – this has been the standard approach for financial evaluations for several years.
- Transparency – the depreciation values are interchangeable with the capital renewal, so it is easier to review.
- Uncertainty of capital renewal – it is cumbersome, and unnecessarily complicated, to try and guestimate the precise timings of capital renewals in individual years. It can be done, by reference to individual components and estimated useful lives, but, the actual values and timings will be different anyway.
- City policy – the key reason for just equating capital renewal to the depreciation values is that this is consistent with the City's policy of managing and funding capital renewals. In May 2019 (*CJ065-05/19 refers*) the City approved the establishment of an Asset Renewal Reserve which is set up on this very basis, that the estimated renewals form the basis of cash transfers to a dedicated reserve on an annual basis.

Note also that the depreciation values for the 'as is' option are assumed by default to take account of any renewal expenditure required over the next 40 years as well.

SUMMARY IMPACTS

8 OPERATING ANALYSIS

8.1 Operating impacts Year 1 (2025-26)

The table below summarises the operating impacts for the first year, issues are:

- All options individually will result in an operating deficit. However the key consideration is the incremental difference between option 2 (refurbish) and option 1 (redevelop) versus option 3 because the operating deficit of $205k per year is already in the City's operating results. So if option 1 (redevelop) and option 2 (refurbish) are better than option 3 then it may be worth pursuing.
- Option 1 (redevelop) may result in a deficit of $212k which is $7k worse off than the baseline. Option 1 has higher operating income but a lot more operating expenses, including the depreciation of a new facility.
- Option 2 (refurbish) may result in a deficit of $124k which is $81k better than the baseline. Option 2 (refurbish) benefits from the new commercial income stream but has higher operating expenses

Operating Impacts 2025-26 excluding inflation		Option1 Redevelop	Option2 Refurbish	Option3 As Is
Operating Income	***$000s***	**$327**	**$318**	**$38**
Operating Expenses, incl. Interest & Depn				
Operating Cash Expenses	*$000s*	($255)	($250)	($190)
Interest on Borrowings	*$000s*	($151)	($92)	
Depreciation	*$000s*	($133)	($100)	($52)
Operating Expenses, incl. Interest & Depn	***$000s***	**($539)**	**($442)**	**($243)**
Operating Surplus / (Deficit)	***$000s***	**($212)**	**($124)**	**($205)**
Operating Surplus / (Deficit) vs Baseline	***$000s***	**($7)**	**$81**	

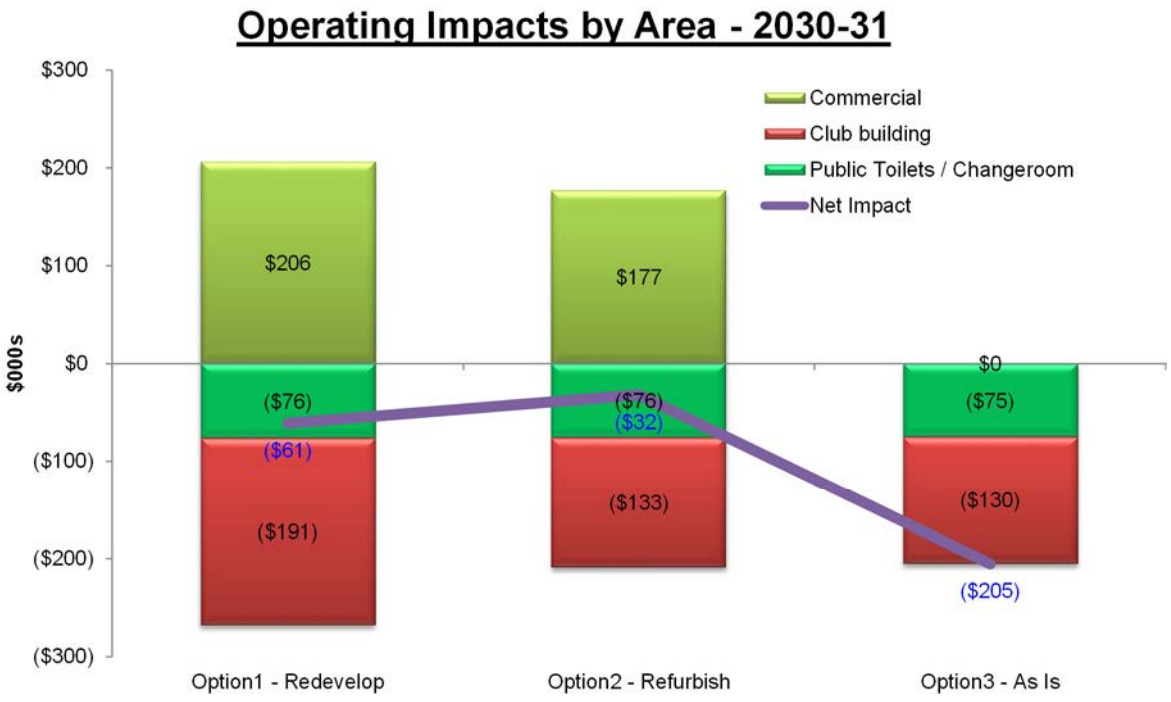
8.2 Operating impacts Year 6 (2030-31)

It is worth considering the operating impacts after the borrowings are repaid and there are no further interest charges affecting the operating results. The table shows that both option 2 (refurbish) and option 1 (redevelop) have a much lower operating deficit than the baseline.

Operating Impacts 2030-31 excluding inflation		Option1 Redevelop	Option2 Refurbish	Option3 As Is
Operating Income	*$000s*	**$327**	**$318**	**$38**
Operating Expenses, incl. Interest & Depn				
Operating Cash Expenses	*$000s*	($255)	($250)	($190)
Interest on Borrowings	*$000s*		($0)	
Depreciation	*$000s*	($133)	($100)	($52)
Operating Expenses, incl. Interest & Depn	*$000s*	**($388)**	**($350)**	**($243)**
Operating Surplus / (Deficit)	*$000s*	**($61)**	**($32)**	**($205)**
Operating Surplus / (Deficit) vs Baseline	*$000s*	**$144**	**$174**	

8.3 Operating impacts by Area

The graph below has then broken down the operating deficit for each option and split it by area. The line in the chart below and values shown in blue font are the overall operating deficit, as per the table above. The columns then break down the values into three areas. This shows the benefits of the commercial area which help offset the operating expenses of the club and public toilets.



9 TOTAL 40-YEAR CASH FLOWS

9.1 Total 40-year cash flows

As indicated in the operating analysis above, both option 2 (refurbish) and option 1 (redevelop) provide a recurring operating benefit so it is worth considering whether that benefit will be adequate to repay the initial establishment cost over a 40 year period.

The table below is the overall 40 year cashflow, by evaluating over such a long period ensures that the long-term impacts including capital renewals can be evaluated. The table below includes all of the impacts described in in the previous sections (capital costs, funding, capital renewals, operating assumptions and escalation).

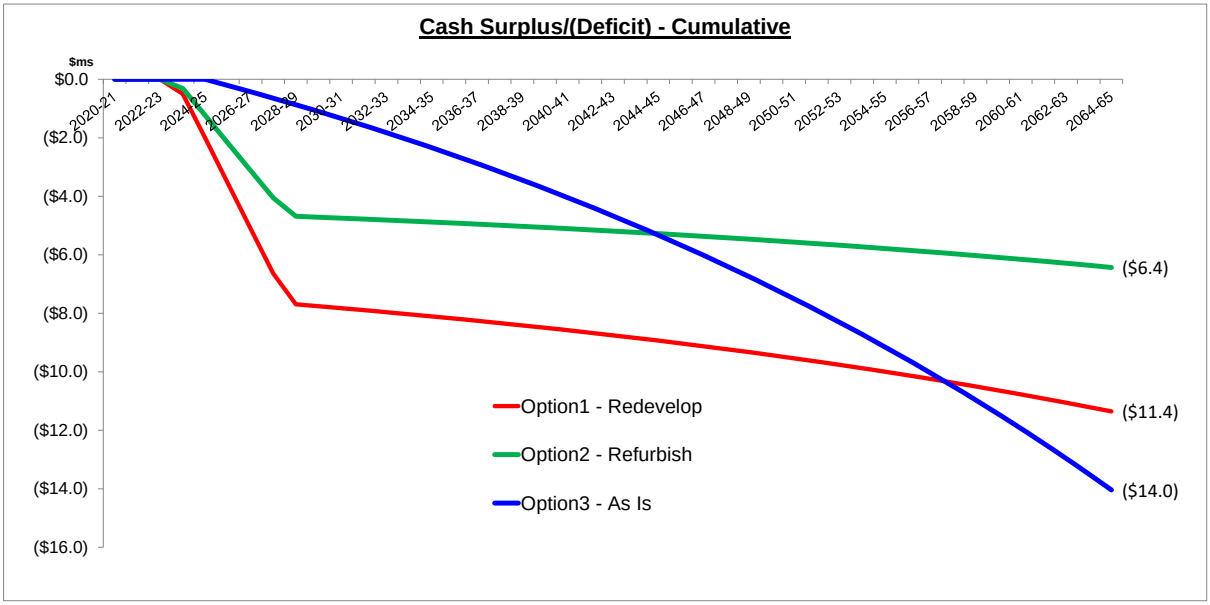
The cashflow analysis indicates the following:

- Option 1 (redevelop) has a negative cash position of ($11.4m) which is $2.7m better than the 'as is' option and pays back after 33 years.
- Option 2 (refurbish) would result in a negative cash position of ($6.4m) which is $7.6m better than the 'As Is' option of ($14.0m). This pays back, in cash terms, within 20 years

Cashflow Summary Total including inflation		Option1 Redevelop	Option2 Refurbish	Option3 As Is
Establishment				
One-off Costs	*$ms*	($9.1)	($5.5)	
Grants, Proceeds, Reserves	*$ms*	$2.3	$1.3	
Net Funding Required	*$ms*	($6.8)	($4.2)	
Borrowings	*$ms*	$6.8	$4.2	
Repayments	*$ms*	($6.8)	($4.2)	
Interest on Borrowings	*$ms*	($0.6)	($0.4)	
Establishment Cost	***$ms***	**($7.5)**	**($4.6)**	
Recurring Impacts				
Operating Cash Expenses	*$ms*	($17.4)	($17.1)	($13.0)
Operating Income	*$ms*	$22.8	$22.2	$2.6
Asset Replacement / Depreciation	*$ms*	($9.2)	($6.9)	($3.7)
Recurring Impacts Total	***$ms***	**($3.9)**	**($1.9)**	**($14.0)**
Cash Surplus/(Deficit) - Cumulative	*$ms*	($11.4)	($6.4)	($14.0)
vs Baseline	***$ms***	**$2.7**	**$7.6**	
Payback (Years)	***Years***	**33**	**20**	

9.2 Cumulative cash flows

The graph below shows the cash flows on a cumulative basis for each of the options. The cash flows for the first five years include the cost of loan repayments and therefore the changes are steeper for option 1 and option 2 than in later years. The graph clearly shows that the 'as is' option declines more sharply when compared to option 2 (refurbish) and option 1 (redevelop).



9.3 Cash Flows by Area

The table below breaks down the overall cash flow by each of the 3 areas.

Cash Surplus/(Deficit) - Cumulative Total including escalation		Option1 Redevelop	Option2 Refurbish	Option3 As Is
1 Public Toilets / Changeroom	*$ms*	($5.8)	($5.4)	($5.1)
2 Club building	*$ms*	($18.8)	($11.8)	($8.9)
3 Commercial	*$ms*	$13.3	$10.8	
Cash Surplus/(Deficit) - Cumulative	***$ms***	**($11.4)**	**($6.4)**	**($14.0)**
vs Baseline	***$ms***	**$2.7**	**$7.6**	

10 RISKS, OPPORTUNITIES AND SENSITIVITY ANALYSIS

10.1 Overview

The previous sections which summarise the financials are based on a set of assumptions, each of which will vary in reality. It is therefore important to consider the impacts on the overall outcome if one or more of the key assumptions vary, which this section will address.

10.2 Risks and opportunities list

The key financial risks and opportunities are:

- Capital costs could increase due to market conditions, detailed design or escalation more than anticipated. Likewise there is a potential for reduced capital costs e.g. competitive tender process.
- External funding – both option 2 (refurbish) and option 1 (redevelop) assume external funding from three different sources. There is a high risk that one or more of those sources does not provide funds. Whilst this would be far from ideal this has a limited impact in a 40 year financial evaluation, the key items in a 40 year evaluation are the recurring impacts, not the one-off impacts.
- Capital replacement. The initial capital costs/specification have significant impacts in a 40 year evaluation due to the impost on the city to ensure they remain fit for purpose and renewed at the appropriate times. The benefit of external funding is a one-off only, the City still has 100% responsibility for future renewal.
- Building maintenance and reactive maintenance – the risk with day to day maintenance for the club building is with the club but the City has the risk of structural/reactive maintenance.
- Commercial income – this is perhaps the single biggest risk in the analysis. The allocation of a dedicated area for a commercial operation does not guarantee the demand for such an operation, whether a tenant could be found, the viability of the operation or that the lease rate of $500 per m2 is achievable. However it must be emphasised that it is a unique and prime location, and indeed there could be an opportunity, that if the income achieved by the tenant was higher than a certain threshold that the City receive a share in the additional turnover – this is a common arrangement in prime locations e.g. City beach new developments constructed a few years ago.

10.3 Sensitivity Analysis – Capital Costs and Commercial Income

For the purposes of sensitivity analysis it is important to evaluate the items that could have the biggest impact if the eventual outcome was significantly different. It is vital to focus on items that have a recurring impact, as opposed to a one-off impact (e.g. grants), which over a 40-year period (or beyond) do not materially affect the outcome.

The two biggest items that have the largest risk at this early stage are i) Capital Costs and ii) Commercial Income Stream. The sensitivity analysis has been evaluated using 3 tables below. Each of the tables are based on the 40-year cashflow versus the ‘as is’ option, so the key values used as the basis are those that have been explained earlier, the $7.6m benefit for option 2 (refurbish) and the $2.7m benefit for option 1 (redevelop).

The three tables are explained as follows

- Capital costs sensitivity – the first table below only looks at the impacts of the capital costs. The table shows the range of possible outcomes if the initial capital costs were less than or more than the estimate. The downside (increased cost) is considered in a larger scale with up to a 40% worsening with steps of 10%, whilst the upside (lower cost) is only considered

on a smaller scale with steps of just 5%. The table shows that for option 2 (refurbish) all scenarios would still provide a positive cash impact versus 'as is', as long as all other assumptions remain the same. Meanwhile Option 1 (redevelop) would only result in a negative outcome if the capital costs were 30% or 40% higher than the current estimate.

Sensitivity Analysis (1) - Capital Costs
40 Year Cashflow versus Option 3 (As Is)

		Option1 - Redevelop	Option2 - Refurbish
		$2.7	$7.6
% Change in Capital Costs	-20.0%	$4.7	$8.8
	-15.0%	$4.2	$8.5
	-10.0%	$3.7	$8.2
	-5.0%	$3.2	$7.9
	0.0%	$2.7	$7.6
	10.0%	$1.1	$7.0
	20.0%	$0.1	$6.4
	30.0%	($1.0)	$5.8
	40.0%	($2.1)	$5.2

- Commercial income sensitivity – the second table below works on the same basis as the capital costs, with larger steps on the downside e.g. a 40% reduction in rental income would equate to $300 per m2 instead of $500 per m2, but on the upside only as much as a 20% increase is considered. The results of the sensitivity are similar to the capital cost sensitivity, that only with a 20%, 30% or 40% worsening of the commercial income assumption would result in a negative outcome for option 1.

Sensitivity Analysis (2) - COMMERCIAL INCOME
40 Year Cashflow versus Option 3 (As Is)

		Option1 - Redevelop	Option2 - Refurbish
		$2.7	$7.6
% Change in $500 per m2	-40.0%	($2.9)	$2.2
	-30.0%	($1.5)	$3.5
	-20.0%	($0.1)	$4.9
	-10.0%	$1.3	$6.2
	0.0%	$2.7	$7.6
	5.0%	$3.4	$8.3
	10.0%	$4.1	$9.0
	15.0%	$4.8	$9.6
	20.0%	$5.5	$10.3

- Joint sensitivity – the final table below brings together both items above into an overall sensitivity table for Option 2 (refurbish) only. So if we take the top left corner of the table

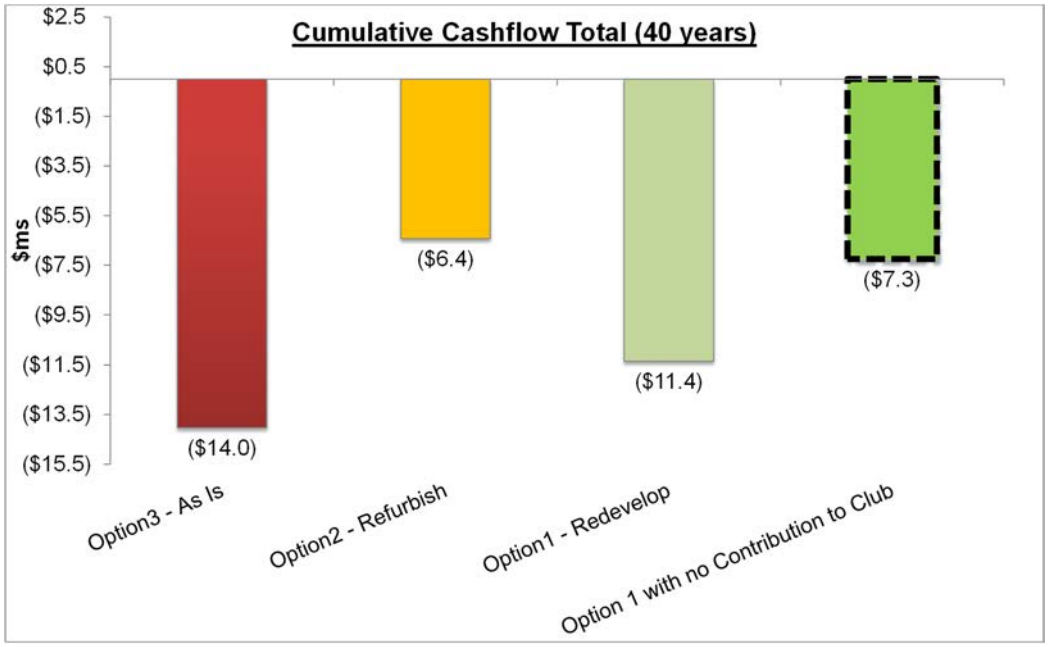
this shows that the combined outcome if capital costs were 40% higher and the commercial income stream were 40% lower would be a cash position that is $0.2m worse than the 'as is'. Meanwhile the best outcome on the table is the bottom right, with a 20% reduction in capital costs and a 20% increase in the commercial income. There are a total of 81 scenarios in the table below and only one scenario out of 81 would provide an adverse outcome.

Sensitivity Analysis - Option 2 (Refurbish)
Change in Capital Costs and Change in Commercial Income

% Change in $500 per m2	% Change in Capital Costs								
$7.6	40%	30%	20%	10%	0%	-5%	-10%	-15%	-20%
-40.0%	($.2)	$0.4	$1.0	$1.6	**$2.2**	$2.4	$2.7	$3.0	$3.3
-30.0%	$1.1	$1.7	$2.3	$2.9	**$3.5**	$3.8	$4.1	$4.4	$4.7
-20.0%	$2.5	$3.1	$3.7	$4.3	**$4.9**	$5.2	$5.5	$5.8	$6.1
-10.0%	$3.8	$4.4	$5.0	$5.6	**$6.2**	$6.5	$6.8	$7.1	$7.4
0.0%	**$5.2**	**$5.8**	**$6.4**	**$7.0**	$7.6	**$7.9**	**$8.2**	**$8.5**	**$8.8**
5.0%	$5.9	$6.5	$7.1	$7.7	**$8.3**	$8.6	$8.9	$9.2	$9.5
10.0%	$6.6	$7.2	$7.8	$8.4	**$9.0**	$9.3	$9.6	$9.9	$10.2
15.0%	$7.3	$7.9	$8.5	$9.1	**$9.6**	$9.9	$10.2	$10.5	$10.8
20.0%	$7.9	$8.5	$9.1	$9.7	**$10.3**	$10.6	$10.9	$11.2	$11.5

10.4 Amortisation of Club Contribution

The projections in this report indicate that Option 1 (redevelop) may provide a worse financial outcome for the City than option 2 (refurbish), $1.7m worse off. Note that all three options assume the City pays $60k per year to the Club as a contribution. It could be worth proposing to the club that this value is amortised as a one-off payment in lieu of option 1 (redevelop). In other words the club forego the contribution from the City but in recognition of the city paying a higher capital costs for the redevelopment option. This could be worth considering if the redevelopment option achieves more of the non-financial objectives of the project. The graph below shows the three options total cashflow and the final column to the right shows the impact to Option 1 (redevelop) without the club contribution – this shows that option 1 (redevelop) would still be a lower ranked option than option 2 (refurbish), in financial terms.



11 SUMMARY

11.1 Key Outcomes of preliminary financial evaluation

This report is only a preliminary financial report, but some key observations can be made at this early stage:

- Commercial income stream could be of a significant financial benefit.
- Both option 2 (refurbish) and option 1 (redevelop) would provide an improvement in the operating results to the City and therefore this is the type of project that is in sync with the City's strategic objectives and financial strategy to address the operating deficit.
- Fully costed business case is required before any recommendation could be made either way.
- Strategic Financial Plan Affordability – the City can afford (from a capital investment perspective) either the refurbish option or the redevelop option. There is sufficient capacity from City reserves to fund the project or alternatively borrowings could be used.
- Financial Health Indicator - This project would have no impact on the City's debt ratios and would have a positive impact on the operating result
- Timing – it is for the project and the city to determine the most appropriate timing if or when the refurbish/redevelop option could be pursued – the SFP can afford this project at any time in the next 10 or 20 years, and from a financial perspective the earlier the better.
- Included in SFP – the project should only be included in the SFP once:
  - Fully costed business case prepared
  - External funding opportunities exhausted
  - Approval from Council

11.2 Optimum Financial Option

The optimum financial option is the one that best meets the project objectives. There are four project objectives within the Project Philosophy and Parameters and two of those relate to the financials, as listed below

Financial Sustainability (City) Preferred option will provide a better, or no worse, financial impact to the City over a 40 year period.	Recurring operating deficit to the City of the preferred outcome is lower than the current operating deficit, and those annual savings in would be sufficient to pay back one-off costs within a 40 year timeframe. Any one-off investment by the City to refurbish or redevelop is affordable.	The annual 'steady state' operating deficit of the preferred outcome will be estimated in the business case and will include operating income (including potential new income stream from commercial tenant), operating cash expenses (building maintenance, contribution to club) and depreciation. The estimated operating deficit will be compared to the existing operating deficit. The affordability of the one-off investment is measured using the Strategic Financial Plan and ensuring that the City's financial targets (operating surplus, debt ratios) are within threshold.

Financial Sustainability (Club) Preferred outcome will provide a better, or no worse recurring financial impact to the Club than the current operation.	Club generates a moderate operating surplus that is equal to or better than current operating surpluses and is sufficient to replace any of its own assets.	Business Case will evaluate the 'steady state' operating surplus. The estimated steady state operating income will be based on prudent estimates of membership growth and utilisation of club facilities. Operating expenses will include the day to day building operating expenses, cleaning, staff costs and all other club operating activities. Audited accounts will be provided to the City annually for review.

Whilst option 2 (refurbish) would appear in this analysis to achieve the better financial outcome to the City (objective 1) it may not necessarily be the best outcome to support objective 2. It is therefore not appropriate for this report to state outright what is the optimum financial option that achieves the project objectives. A business case needs to be prepared which needs to enhance all of the financials and evaluate each option against the project objectives – that analysis may well indicate that on balance option 1 (redevelop) achieves a higher proportion of all of the project objectives than option 2 (refurbish), even though it may have a worse financial outcome for the City.

The business case will also need to evaluate the impact of each option against the other two objectives, which are Community Safety and Building fit for purpose.

The business case should also evaluate the Social and Economic Return on Investment Analysis for the project.

11.3 Enhancements Required to Future Financial Evaluation / Business Case

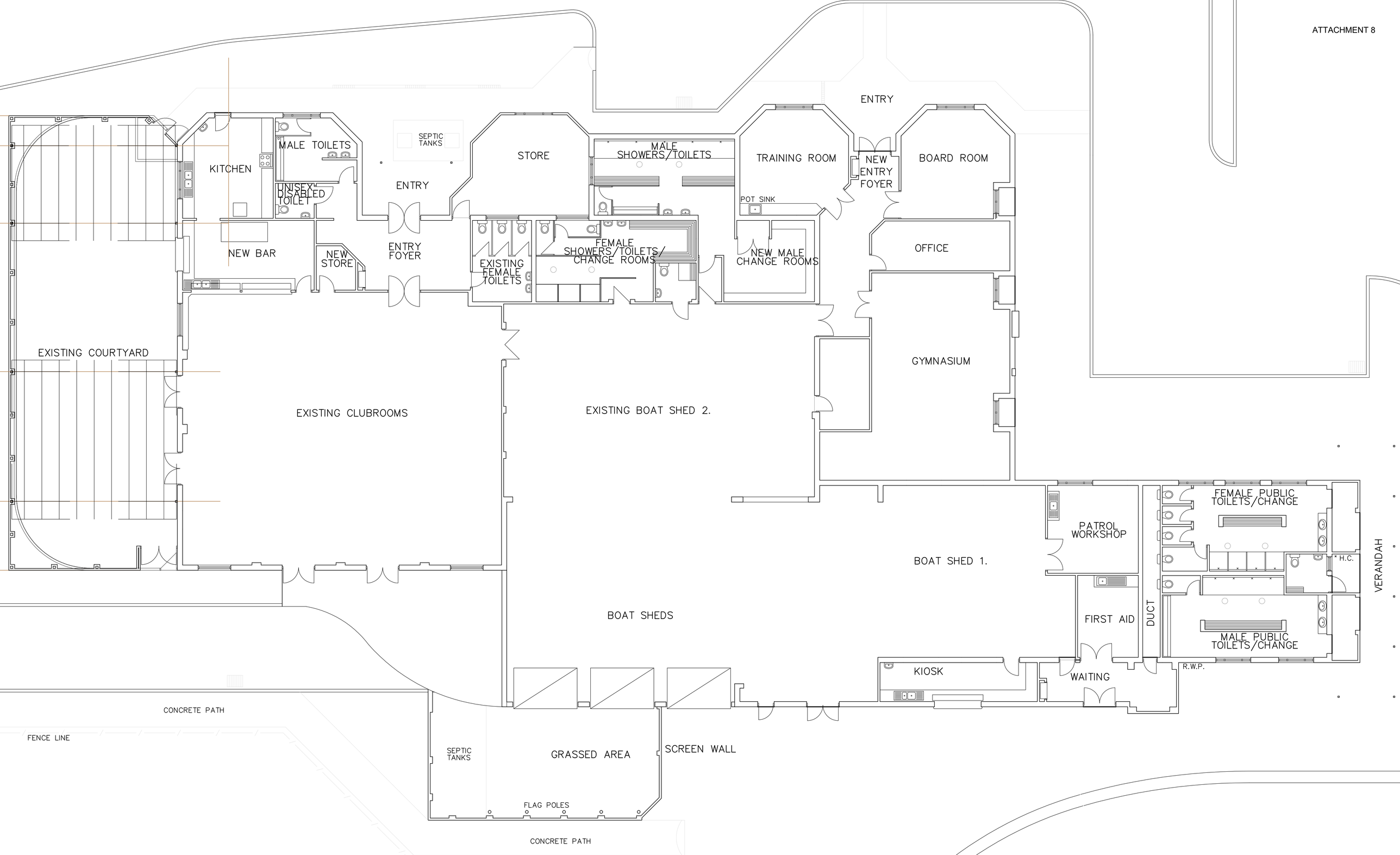
This report is a preliminary financial evaluation only, there is more work required to improve the robustness of the financials and incorporate into a future business case as follows:

- Retail needs analysis / viability of proposed commercial lease;
- Detailed design and detailed QS costings
- Exclusions to capital costs included
- Club financial sustainability – this was assessed previously in 2018, but needs to be reassessed based on detailed design, and other updated assumptions e.g. current memberships, projected membership growth and their capacity to contribute 10% of the club refurbishment or redevelopment
- Phasing assumptions of either the refurbish or redevelop option would be subject to more detailed assessment. These may need spread over 3 years, with a design element in the first year and construction spread over the remaining 2 years.
- External grant opportunities will need to be investigated further

11.4 Text to be used for Council report

The following text is proposed to be used for the financial section of the Council report.

Disclaimer:	The report includes financial projections for refurbishment or redevelopment of the facility. The report does not contend that the financial projections will come to pass exactly as stated but to assist with preliminary financial observations and future feasibility. The projections are best estimates at this point in time however, there is a level of risk and uncertainty in the projections. The actual impacts will vary due to one or more the following: • Capital cost / specification / design / tender • Utilisation • Commercial income received
Establishment Costs and Funding	The refurbishment option would cost over $5 million and the redevelop option almost $9 million. There is no funding set aside in the SFP for this project, this should only be done after a fully costed business case. The SFP can afford the investment, but ideally external funding opportunities should be explored fully before the City commits to its share.
Annual operating subsidy including Depreciation	The current operating deficit for the two current buildings is approximately $200,000 per year, including depreciation. The amount can vary each year due to a variety of factors e.g. utilisation, income, maintenance costs. Both the refurbish and redevelop options are highly likely to reduce the operating deficit to well below $100,000 due primarily to a new income stream.
Summary Financial Comments	In summary, the refurbishment or redevelopment of the facilities provides the City with an opportunity to provide an ongoing financial benefit to the City and will assist the City in addressing the $9.2 million operating deficit (2020/21 budget). A business case will be prepared for the project which will evaluate options, whole-of-life costs and a critique of options versus the project objectives and may recommend that additional funds are added to the Strategic Financial Plan if necessary. The Strategic Financial Plan has sufficient capacity to include additional capital costs for this project, especially as there are operational savings. The business case will also evaluate the social and economic benefits of the proposed redevelopment.


ENTRY
SEPTIC TANKS
MALE TOILETS
KITCHEN
UNISEX DISABLED TOILET
ENTRY
STORE
MALE SHOWERS/TOILETS
TRAINING ROOM
NEW ENTRY FOYER
BOARD ROOM
POT SINK
NEW BAR
NEW STORE
ENTRY FOYER
EXISTING FEMALE TOILETS
FEMALE SHOWERS/TOILETS/ CHANGE ROOMS
NEW MALE CHANGE ROOMS
OFFICE
EXISTING COURTYARD
GYMNASIUM
EXISTING CLUBROOMS
EXISTING BOAT SHED 2.
PATROL WORKSHOP
FEMALE PUBLIC TOILETS/CHANGE
BOAT SHED 1.
H.C.
VERANDAH
BOAT SHEDS
FIRST AID
DUCT
MALE PUBLIC TOILETS/CHANGE
KIOSK
WAITING
R.W.P.
CONCRETE PATH
FENCE LINE
SEPTIC TANKS
GRASSED AREA
SCREEN WALL
FLAG POLES
CONCRETE PATH