10.13.North Sydney Olympic Pool Operations

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PURPOSE:

This report presents key information to assist the Council in determining the most appropriate management operational model for the running of the North Sydney Olympic Pool (NSOP).

EXECUTIVE SUMMARY:

Otium Planning Group (OPG), the Consultants who prepared the original Business Case for the Council's NSOP development, were asked to update the Business Case and to expand this to include advice on the operating models that could be used to run NSOP when it opens late 2023.

On 20 September 2022, OPG presented the updated Business Case and options for the future management and operation of the NSOP to a Councillor Briefing session.

Council requested that additional information be provided on each of the management options presented, to enable the Council to make an informed decision and the relevant Council Resolution/(s).

Attachment 1 explores the details, risk, benefits, and financial impact of each of the models under consideration.

FINANCIAL IMPLICATIONS:

The financial impact of each of the models is summarised below and detailed within Attachment 1***.***

RECOMMENDATION:
1. THAT Council support the Internal Management model as set out in this report for the operation of North Sydney Olympic Pool and commence the necessary budgetary and industrial actions to support implementation.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

2. Our Built Infrastructure
2.1 Infrastructure and assets meet diverse community needs

BACKGROUND

Otium Planning Group (OPG), the Consultants who prepared the 2020 Business Case for the redevelopment of NSOP, were asked to update the Business Case with 2022 data, and to expand this to include an assessment of the available management options including the advantages and disadvantage of each options.

On 20 September 2022, OPG presented the updated Business Case and options for the future management and operation of the NSOP to a Councillor Briefing session.

Council requested that additional information be provided on each of the management options presented, to enable the Council to make an informed decision and the relevant Council Resolution/(s).

Attachment 1 explores the details, risk, benefits, and financial impact of each of the models under consideration.

Further, the attachment presents detail around the options available and covers the following:

- An outline of four management model options for aquatic leisure centres;
- An overview of the management model risks and benefits;
- A comparison of the four management models against a range of facility and business operating considerations;
- A summary of the Financial Operating Models for three of the management models including internal management, external management and company limited by guarantee. A financial model for the lease management option has not been developed given the uncertainty around the rental valuation of the site. This valuation is critical to determine the commercial rent and overall operating performance of this option;
- A comparison of the forecast operational performance of the health and fitness areas with potential other uses to determine if health and fitness offerings are the highest and best economic use for this space; and
- Indicative implementation timelines with key tasks and milestones for the internal management, external management and company limited by guaranteed options.

CONSULTATION REQUIREMENTS

Community engagement is not required.

DETAIL

Summary of Management Options

Research and industry trends indicate that the main management models currently operating in the Australian aquatics leisure industry include:

- **Internal Management:** This is the most traditional model where a Council directly employs management and staff to operate the aquatic facilities. This management model allows Council full control of operations, pricing, programming, asset management and staffing.
- **External Management:** This is where a Council contracts or leases out management rights of the aquatic facilities to either a professional contract management company or an individual to operate all facilities or a community committee. This is usually done through a contract for an agreed term and a set of conditions that binds each party.
- **Company Limited by Guarantee:** This model is emerging and involves the Council setting up a separate wholly owned company to manage and operate the facilities on its behalf. This model allows the company to control all facilities based on the Management Services Agreement and key operating directions set up by Council. This option is used where councils wish management to be more commercial and are prepared to hand off responsibility to the company but retain some strategic direction and control. The model generally has higher start-up costs and is better suited to a network of facilities due to the economies of scale it can deliver.
- **Long Term Lease:** This is where a council leases out management rights of the leisure facilities to either a professional contract management company, an individual or a sports club/association to operate the facilities. This is usually done through a contract for an agreed term and a set of conditions that bind each party.

Management Options Risk Vs Control

As outlined in Attachment 1, all of the management models have a range of differences, but they can be defined by some common linkages into two groups linked by:

- Level of control Council wants or is prepared to give away
- Level of risk Council is prepared to take or want to give away.

The choices made regarding the above has a direct impact on the financial outcomes which underpin the models.

The key considerations that need to be made when determining the most suitable option for the future management and operation of the NSOP include:

- **Financial sustainability** – may include pre-opening expenses, start-up costs, redundancy costs, share equity, ongoing operations, contract management costs, renewal applications, corporate overheads;
- **Time and complexity** to implement and operate the operational management model – assesses the imposition on Council to implement and service the management model. It considers Council's current knowledge base and expertise of each model, the ability to absorb the effort required to implement and service the model, and the ongoing impact on the organisation;
- **Strategic alignment with Council objectives** – assesses how each model aligns with Council's vision, and can assist in the delivery of key Council strategies and objectives;
- **Impact on organisational risk profile** – assesses the level of risk to Council;
- **Capacity for Council to control and influence operations** – assesses the ability of Council to directly influence and control day-to-day operations.
- **Asset management** - assesses the level, quality and standards of asset management of the facility; and
- **Industry expertise** - assesses the level of facility management skills, capability and experience.

Across Australia aquatic leisure centres are being managed by one of the four options detailed above, with the majority being managed either internally by Council-employed staff or externally under contract by a specialist aquatic and leisure management company that manages the facility on behalf of Council. There are a number of Councils exploring and using the Company Limited by Guarantee model, as this model affords Council the opportunity to have greater control but allows the management of the Centre to operate in a more commercial environment without being hamstrung by councils' lengthy approval processes. There are limited examples of aquatic and leisure facilities leased to a third party.

The following details the benefits and risks identified for the internal and external management options. These are more fully explored in the attached report.

Internal Management Model (Benefits and Risks Summary)

Benefits

- Higher level of 'hands-on' control in 'real-time' of the strategic alignment (including customer experience, service quality, programs and services) and asset maintenance of its facility.
- Council receives sole branding recognition.
- Operational costs can be defrayed or minimised.
- Flexible and responsive management systems.
- Control over asset management.
- Shared staffing across facilities.

- Direct management ensures Council is fully aware of the financial and operating performance of the facility.

Risks

- Limited Council staff with the experience/expertise to maximise the Leisure Centres usage and viability.
- All the operational risk rests with Council.
- Council responsible for all operating costs and any unforeseen deficits.
- Higher staffing costs under local government awards, higher associated on-costs, and therefore higher overall operating costs.
- Council's internal policies and procedures inhibit the facilities ability to operate in commercial environment.
- Potential for exposure to industrial relations.

External Management Model (Benefits and Risks Summary)

Benefits

- Responsibility for all staffing and human resourcing rests with the operator.
- Lower staffing and on-costs.
- Industry-specific expertise.
- Operational economies of scale savings where an operator manages two or more facilities.
- Reduced corporate overhead costs.
- More flexibility in day-to-day management/ decision-making is extended to the operator.
- Council can selectively determine the aspects of facility management it wishes to retain (e.g., major asset maintenance).

Risks

- Venue management companies may seek to insure themselves when tendering for the management rights to new unknown facilities. This can translate into Council paying a premium for the 'unknown' quantity associated with operating a new venue.
- Availability of service providers in the marketplace.
- Less Council influence in day-to-day operation, (although Council can retain responsibility for setting entry fees and charges if it chooses).
- Larger companies may appoint an on-site manager who does not have the same connection with the community as a smaller operator.
- Community health and social outcomes may be diminished if the operator concentrates on servicing those programs that generate the greatest commercial return.
- The operator may pay less attention to asset maintenance.
- The requirement to oversee management contract conditions can be a significant 'hidden cost' to Council.
- In most cases, the risk of fluctuations in net operating costs still rests with Council.
- Councils require experience in management of the contract.

Models currently in use at other Councils

A review of existing NSW Council management model was undertaken. The following table provides a summary of the type of facility and management type.

Council name	Facility Type	Management Type	Current Operator
Sydney City	Six Aquatic and Leisure Centres	External	Belgravia P/L (due for operator review in the next twelve months)
Lane Cove	One Aquatic and Leisure Centres	Long Term Lease	BlueFit P/L
Willoughby	One Aquatic and Leisure Centres	Internal	Review of model to be undertaken over next 12 months
Inner West	Three Aquatic and Leisure Centres	Internal	
Bayside	Two Aquatic and Leisure Centres	Internal	
Randwick	One Aquatic and Leisure Centres	Internal	
Ashfield	One Aquatic and Leisure Centres	Internal	
Hornsby	Two Aquatic and Leisure Centres	Internal	
Ku-ring-gai-	One Aquatic and Leisure Centres	External	Y NSW P/L
Northern Beaches-	Two Aquatic and Leisure Centres	Internal	
Canterbury/Bankstown	Four Aquatic and Leisure Centres	Internal	
Hills Shire	One Aquatic and Leisure Centres	Internal	

Discussions with neighbouring councils indicates a preference for the internal management model as it provides Council with the highest level of control over the operations of the facility. The key areas of benefit identified include:

- Greater capacity to align the services and programs with community need.
- Setting of fees and charges.
- Level of flexibility for services and functions offered.

Financial Implications

The following table summarises the 10-year average base case business projections for the internal, external and company limited by guarantee management models.

The key financial difference between the three models is the cost of labour. Labour costs for aquatic and leisure centres represent the highest expenditure area and account for between 55% and 65% of expenditure, depending on the facilities and services provided.

The difference between the models is therefore based on the different rates of pay under each option. The internal model is required to pay staff under Council's agreed Enterprise Bargain Agreement (EB) whereas staff employed by either a contract management company or under the company limited by guarantee pay staff under the Modern Fitness Award or the Fair Work Australia award. The rates of these two awards are somewhere between 20% and 25% lower than Councils EB, which explains the key difference in expenditure between the models.

Table 1: High Level Summary – Internal, External and Company Management Models (excluding lease income)

Performance Indicator	2018/19 Actual Operating Performance	Internal Management Model (10 Year Average)	External Management Model (10-year Average)	Company Model (10-year Average)
Visitations	384,500	519,309	519,309	519,309
Revenue	$2,841,171	$6,993,593^	$6,993,593^	$6,993,593^
Expenditure	$3,062,671	$5,814,427	$5,204,952	$5,387,355
Operational Performance (Cash inflow))	**($221,500)**	**$1,179,166***	**$1,788,641***	**$1,606,238***

^ Includes anticipated revenue from Food & Beverage leases ($781,272)
** Excludes pre-opening operational costs*
Depreciation of the NSOP has been estimated at $1,400,000 p.a. and has not been included in the above table

Timing to Implement

The time and cost required to successfully implement the management model is also an issue for Council consideration. The attachment provided by OPG indicates the funding and time required to implement each of the models. In summary, the time required is:

- Internal Council Management – Approximately 16 months with a 3-month transition
- External Contractor – Approximately 13 months with a 3-month transition
- Company Limited by guarantee - Approximately 20/24 months with a 3-month transition

Ideally the manager and leadership positions should be secured six months prior to the opening of the facility to enable operational staff recruitment (i.e. swimming teachers, lifeguards), development of policies and procedures, and the implementation of a detailed sales and membership program. This ensures that on day one of the facility opening the centre has secured a strong base of revenue.

Discussion

There are advantages and disadvantages for the internal and external management models. The decision about which model to adopt is based on the individual circumstance of the Council, the needs of the facility and a determination about which model best addresses the following considerations:

- Financial sustainability
- Time and complexity
- Strategic alignment with Council objectives
- Impact on organisational risk profile,
- Asset management
- Industry expertise

Discussions with neighbouring councils indicates a preference for the internal management model as it provides Council with the highest level of control over the operations of the facility, however the internal model also has a number of inherent risks including:

- A higher operating cost resulting in a higher operating subsidy from Council – a difference in centre performance of approximately $600K per annum (forecast 10-year average).
- Lack of expertise within the organisation, given the closure of the facility over the past two years
- Lack of expertise to supervise the Centre Manager
- The potential lack of available staff given the current employment environment

NORTH SYDNEY OLYMPIC POOL - REDEVELOPMENT

Operational Modelling - Summary Report

October 2022

NORTH SYDNEY COUNCIL

OTIUM
SPORT + LEISURE + COMMUNITIES

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Otium Planning Group acknowledges the Australian Aboriginal, Torres Strait and South Sea Islander peoples of this nation.

We acknowledge the traditional custodians of the lands on which our company is located and where we conduct our business. We pay our respects to ancestors and to Elders, past, present and emerging.

Otium is committed to national reconciliation and respect for Indigenous peoples' unique cultural and spiritual relationships to the land, waters and seas, and their rich contribution to society.

Cover Photo: Urbis Planning

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1. INTRODUCTION & PROJECT OVERVIEW

1.1. STUDY PURPOSE

North Sydney Council (Council) is **currently redeveloping** the North Sydney Olympic Pool with construction currently scheduled for **completion in late 2023.**

The North Sydney Olympic Pool is currently being redeveloped and is forecast to re-open in late 2023. In order to guide long term financial resourcing associated with repayment of borrowings for the redevelopment, revised operational modelling has been established which considers

HISTORICAL OPERATING PERFORMANCE
(income, expenditure and visitations)

CURRENT AND FUTURE POPULATION ESTIMATES

INDUSTRY DATA

REVISED OPERATIONAL ASSUMPTIONS

1.2. ABOUT THE REDEVELOPMENT OF THE NORTH SYDNEY OLYMPIC POOL

North Sydney Olympic Pool was constructed in 1936. Whilst world class at the time, North Sydney Olympic Pool has reached the end of its useable life and requires redevelopment to meet contemporary sport and leisure needs.

The redeveloped North Sydney Olympic Pool increases the gross floor area (GFA) by approximately 23% with the new facility mix to provide a diverse range of recreation offerings for residents, workers and visitors. Key increases in GFA's include:

Aquatic areas

Increasing by 20%, from 1,993m2 to 2,501m2 including a variety of water bodies with various depths and temperatures to appeal to difference services and programs.

Gym/ Health and Fitness

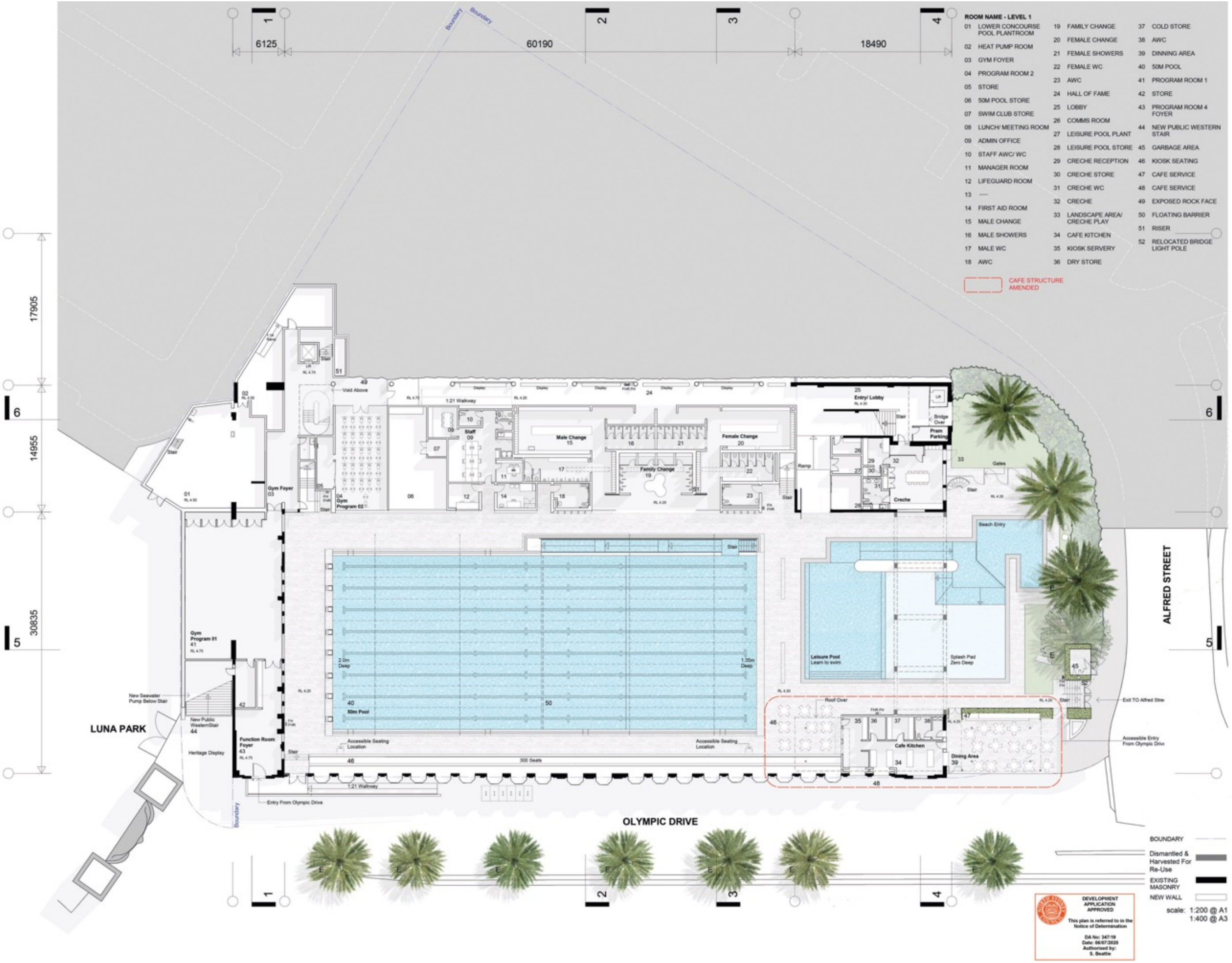
Increasing by 80%, from 230m2 to 1,123m2 providing enhanced participation and revenue generating opportunities

The cost to redevelop the North Sydney Olympic Swimming Pool site is approximately **$75 million.**

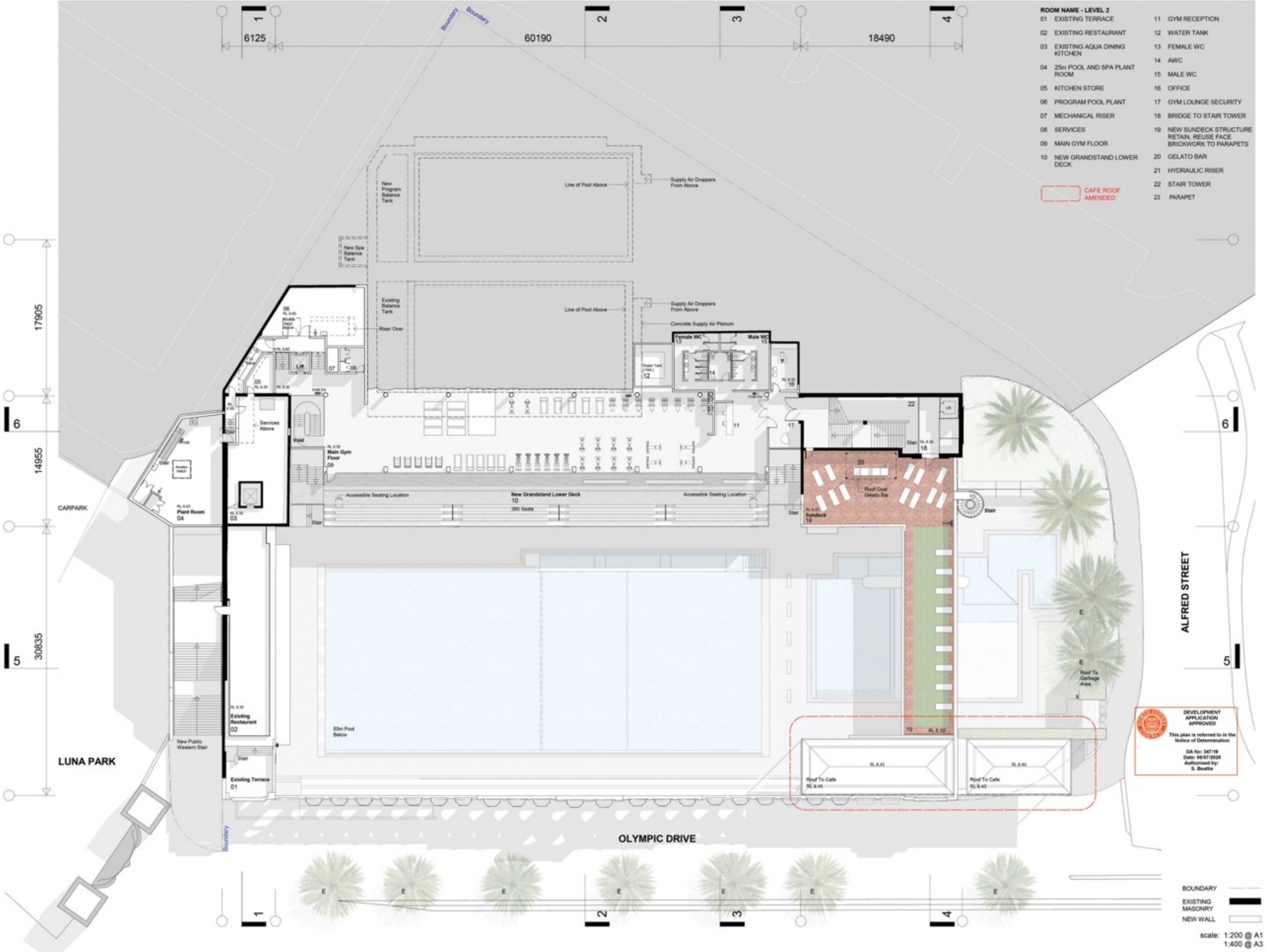
1.3. NORTH SYDNEY OLYMPIC POOL REDEVELOPMENT PLANS – BY BREWSTER HJORTH ARCHITECTS

3D Render

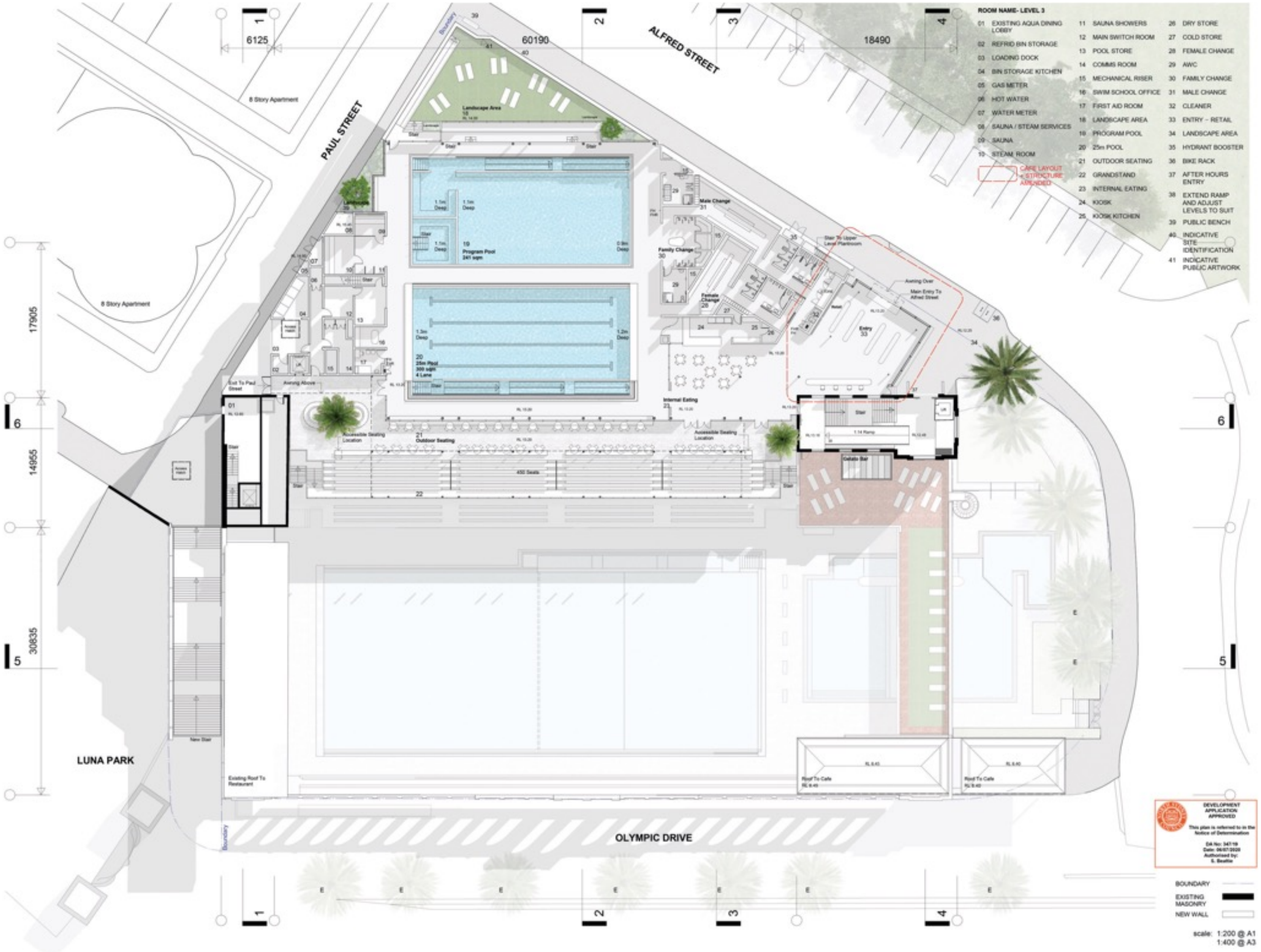
Level 1 Plan


6125
60190
18490
17905
14955
30835
ROOM NAME - LEVEL 1
01 LOWER CONCOURSE POOL PLANTROOM
02 HEAT PUMP ROOM
03 GYM FOYER
04 PROGRAM ROOM 2
05 STORE
06 50M POOL STORE
07 SWIM CLUB STORE
08 LUNCH/ MEETING ROOM
09 ADMIN OFFICE
10 STAFF AWC/ WC
11 MANAGER ROOM
12 LIFEGUARD ROOM
13 —
14 FIRST AID ROOM
15 MALE CHANGE
16 MALE SHOWERS
17 MALE WC
18 AWC
19 FAMILY CHANGE
20 FEMALE CHANGE
21 FEMALE SHOWERS
22 FEMALE WC
23 AWC
24 HALL OF FAME
25 LOBBY
26 COMMS ROOM
27 LEISURE POOL PLANT
28 LEISURE POOL STORE
29 CRECHE RECEPTION
30 CRECHE STORE
31 CRECHE WC
32 CRECHE
33 LANDSCAPE AREA/ CRECHE PLAY
34 CAFE KITCHEN
35 KIOSK SERVERY
36 DRY STORE
37 COLD STORE
38 AWC
39 DINNING AREA
40 50M POOL
41 PROGRAM ROOM 1
42 STORE
43 PROGRAM ROOM 4 FOYER
44 NEW PUBLIC WESTERN STAIR
45 GARBAGE AREA
46 KIOSK SEATING
47 CAFE SERVICE
48 CAFE SERVICE
49 EXPOSED ROCK FACE
50 FLOATING BARRIER
51 RISER
52 RELOCATED BRIDGE LIGHT POLE
CAFE STRUCTURE AMENDED
LUNA PARK
OLYMPIC DRIVE
ALFRED STREET
BOUNDARY
Dismantled & Harvested For Re-Use
EXISTING MASONRY
NEW WALL
scale: 1:200 @ A1
1:400 @ A3
DEVELOPMENT APPLICATION APPROVED

Level 2 Plan


ROOM NAME - LEVEL 2
01 EXISTING TERRACE
02 EXISTING RESTAURANT
03 EXISTING AQUA DINING KITCHEN
04 25m POOL AND SPA PLANT ROOM
05 KITCHEN STORE
06 PROGRAM POOL PLANT
07 MECHANICAL RISER
08 SERVICES
09 MAIN GYM FLOOR
10 NEW GRANDSTAND LOWER DECK
11 GYM RECEPTION
12 WATER TANK
13 FEMALE WC
14 AWC
15 MALE WC
16 OFFICE
17 GYM LOUNGE SECURITY
18 BRIDGE TO STAIR TOWER
19 NEW SUNDECK STRUCTURE RETAIN, REUSE FACE BRICKWORK TO PARAPETS
20 GELATO BAR
21 HYDRAULIC RISER
22 STAIR TOWER
23 PARAPET
CAFE ROOF AMENDED
6125
60190
18490
17905
14955
30835
CARPARK
LUNA PARK
OLYMPIC DRIVE
ALFRED STREET
Main Gym Floor
New Grandstand Lower Deck
Plant Room
Existing Restaurant
Existing Terrace
Female WC
Male WC
Sundeck
Roof To Cafe
BOUNDARY
EXISTING MASONRY
NEW WALL
scale: 1:200 @ A1
1:400 @ A3

Level 3 Plan


ROOM NAME- LEVEL 3
01 EXISTING AQUA DINING LOBBY
02 REFRID BIN STORAGE
03 LOADING DOCK
04 BIN STORAGE KITCHEN
05 GAS METER
06 HOT WATER
07 WATER METER
08 SAUNA / STEAM SERVICES
09 SAUNA
10 STEAM ROOM
CAFE LAYOUT + STRUCTURE AMENDED
11 SAUNA SHOWERS
12 MAIN SWITCH ROOM
13 POOL STORE
14 COMMS ROOM
15 MECHANICAL RISER
16 SWIM SCHOOL OFFICE
17 FIRST AID ROOM
18 LANDSCAPE AREA
19 PROGRAM POOL
20 25m POOL
21 OUTDOOR SEATING
22 GRANDSTAND
23 INTERNAL EATING
24 KIOSK
25 KIOSK KITCHEN
26 DRY STORE
27 COLD STORE
28 FEMALE CHANGE
29 AWC
30 FAMILY CHANGE
31 MALE CHANGE
32 CLEANER
33 ENTRY – RETAIL
34 LANDSCAPE AREA
35 HYDRANT BOOSTER
36 BIKE RACK
37 AFTER HOURS ENTRY
38 EXTEND RAMP AND ADJUST LEVELS TO SUIT
39 PUBLIC BENCH
40 INDICATIVE SITE IDENTIFICATION
41 INDICATIVE PUBLIC ARTWORK
PAUL STREET
ALFRED STREET
OLYMPIC DRIVE
LUNA PARK
6125
60190
18490
17905
14955
30835
8 Story Apartment
8 Story Apartment
DEVELOPMENT APPLICATION APPROVED
BOUNDARY
EXISTING MASONRY
NEW WALL
scale: 1:200 @ A1
1:400 @ A3

2. EVIDENCE FOR ACTION & PLANNING

2.1. THE IMPORTANCE OF AQUATIC FACILITIES

Sport and active recreation are a valuable part of life in North Sydney - promoting active lifestyles, helping to develop valuable social networks, and contributing to the liveability of the City's communities. Community sport and recreation infrastructure provides a number of health, economic and social benefits.

Physically and **mentally** by promoting physical activity and active lifestyles, reducing illness and disease, improving mental health and creating a sense of wellbeing

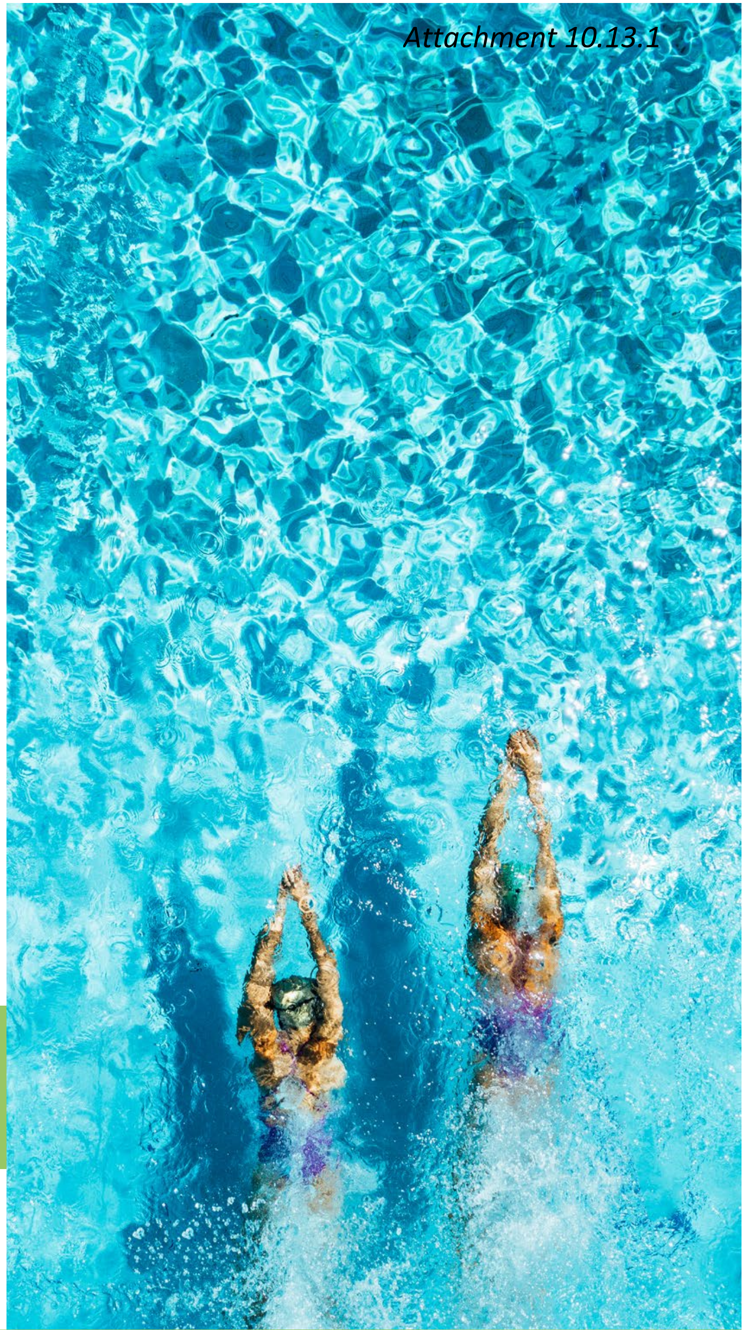
Socially by generating stronger and more connected communities with improved social interaction and inclusion.

Environmentally by developing attractive well-planned settings that encourage active transport and the use of our aquatic facilities and leisure services. This helps to reduce temperature, mitigate urban heat island effects, improve air quality ecosystems and biodiversity.

Economically by assisting to reduce health care cost through reduction in disease and illness associated with lack of physical activity and social interaction, and providing local employment and investment opportunities.

The aquatic industry provides a:

social return on investment of $4.87 for every dollar spent operating an aquatic facility in a capital city or $2.18 in regional Australia[1].



1 *Health, Social and Economic Value Of Aquatic Industry, Royal Life Saving Australia (Pricewaterhouse Coopers), 2021*

2.2. AQUATIC INFRASTRUCTURE TRENDS

Over the past decade, there has been a greater emphasis on the development of a variety of water spaces within aquatic centres, including the components that contribute to successful contemporary aquatic & leisure facilities:

Successful Facilities and Key Components to Meet Main User Markets

Leisure and Adventure
- Indoor water play
- Free form play pools
- Adventure rides and pools

Fitness and Education
- Competition/ training pools
- Learn to swim pools
- Spa/ saunas

Health and Wellness
- Gym and exercise studios
- Massage/ beauty treatments
- Warm water program pools

Hospitality
- Training and program rooms
- Meeting/ social facilities
- Cafe and merchandising

Facility trends indicate several common success factors for aquatic centres:

- **One-stop-shop**
- **Reduce operating losses**
- **Programmable spaces**
- **Community/ social hub**

Successful and sustainable contemporary aquatics and leisure facilities are also community destinations and meeting points for various physical and social activities.

The trends in aquatic facilities are based on the extensive experience of Otium team members who have been responsible for planning, managing or overseeing many of the major recreational facility redevelopments in Australia over the last 20 years.

2.3. MARKET ATTRACTIVENESS

There are four distinct key user markets that need to be attracted to a facility if it is to achieve high use and sustainable operations.

AQUATIC FACILITY USERS ATTRACTION SUBJECT TO DEMOGRAPHIC PROFILE

Recreation, Leisure and Adventure

- Generally 60% to 70% of pool users
- Families, friends, social groups
- Coming for fun, relaxation and play

Fitness and Training

- Generally 20% to 25% of pool users
- Competitive swimmers
- Club association users
- Structured fitness and competition

Education

- 10% to 15% of users
- Learn to swim and schools
- Special needs users

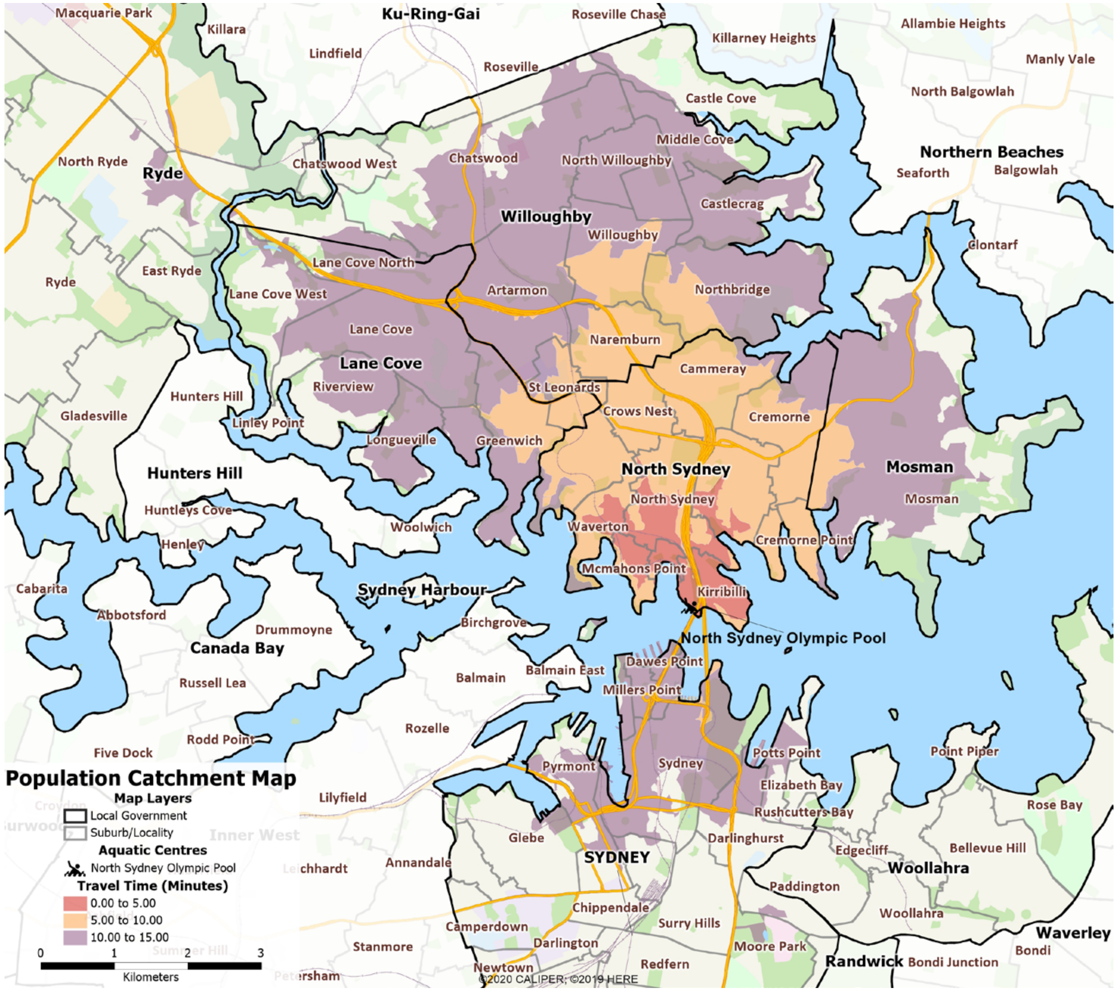
Therapy

- 10% to 15% of users
- Hydrotherapy and rehabilitation
- Exercise classes in warm water

The trends in aquatic facilities are based on the extensive experience of Otium team members who have been responsible for planning, managing or overseeing many of the major recreational facility redevelopments in Australia over the last 20 years.

2.4. KEY RESEARCH FINDINGS

A catchment based approach has been used to assess the current and future demand on centre visitations which also considers existing competing facilities. The map below identifies a 0-5 minute, 5 to 10 minute and 10 to 15 minute travel time to North Sydney Olympic Pool.



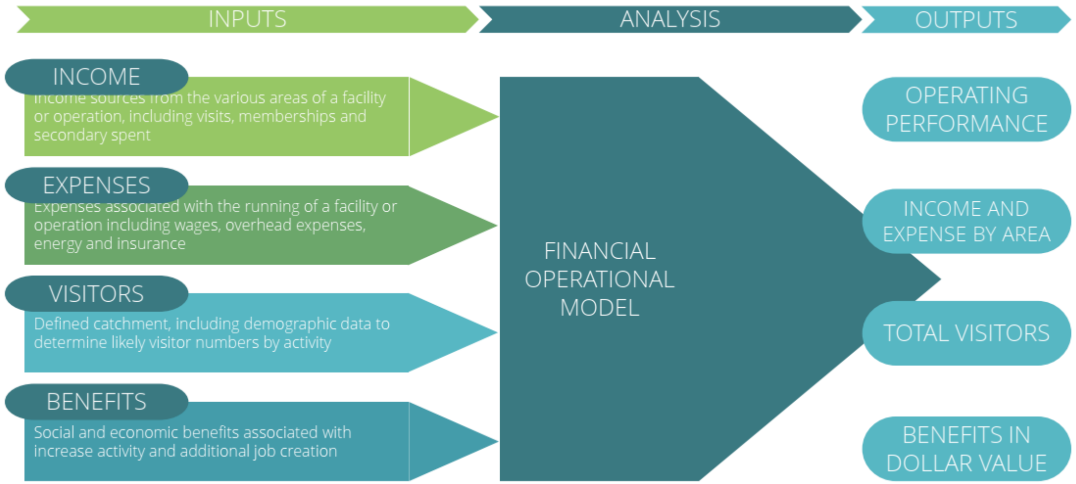
Key research findings that help guide future operational modelling include:

- An estimated residential population within a 10-minute drive time from North Sydney Olympic Pool of 85,703 that is forecasted to grow to 90,040 by 2032.
- An estimated 69,195 jobs within the North Sydney CBD. This workforce will contribute towards demand and visitations to North Sydney Olympic Pool.
- A high volume of competition within the health and fitness sector with over 90 providers identified within a 15-minute travel time, many of these are located within 10-minutes of North Sydney Olympic Pool.
- Whilst there are 12 aquatic providers within a 15-minute drive time, there is a low provision of aquatic competitors within a 10-minute travel time.
- Within the North Sydney Local Government Area, there is a high provision of schools which will likely use North Sydney Olympic Pool for swimming carnivals.
- Consumer choices in accessing North Sydney Olympic Pool compared to competitors will likely be based on convenience in respect to proximity to work or home, cost, services and programs offered, costs and any distinct points of difference such as the economic location of the North Sydney Olympic Pool.

3. FINANCIAL MODELLING AND LOAN REPAYMENTS

3.1. FINANCIAL OPERATIONAL MODELLING

The Otium Analytics Financial Operational Model provides an assessment of the redeveloped North Sydney Olympic Pool anticipated operations and utilisation. The model considers the facility's catchment, anticipated revenue streams, programming, membership, staffing structure, overhead expenses, additional costs (such as pre-opening expenses and add on costs), accounts for CPI and business growth over a 10-year period.



Based on a range of informed assumptions, four conservative based financial models have been developed for consideration and use by North Sydney Council:

1. Internal (North Sydney Council) management excluding commercial area leases.
2. Internal (North Sydney Council) management including commercial area leases.
3. External management excluding commercial area leases.
4. External management including commercial area leases.

Key findings of the financial modelling indicate:

Projected visitations across all models are forecast to be 474,495 in year 1 of operation and growing to 527,217 in year 10, with an **annual average of 519,309 visits.**

Excluding pre-opening costs, depreciation and revenue from commercial leases, the average **operational performance** is forecast to be **$397,894** for the **internal management** model and **$1,007,369** for the **external management** model.

If commercial leases were included, the forecast **operational performance** would **increase by a approximately $781,000 per annum.**

The primary difference in the two models is in relation to **staffing costs.**

The following tables summarises the 10-year average base case business projections for the internal management and external management models. The tables indicate the anticipated performance including and excluding the commercial food and beverage lease revenue.

3.1.1. Excluding Food and Beverage Commercial Lease Revenue Scenarios

Table 1: High Level Summary - Internal and External Management Models (excluding lease income)

PERFORMANCE INDICATOR	2018/19 ACTUAL OPERATING PERFORMANCE	INTERNAL MANAGEMENT MODEL (10 YEAR AVERAGE)	EXTERNAL MANAGEMENT MODEL (10 YEAR AVERAGE)	COMPANY MODEL (10 YEAR AVERAGE)
Visitations	384,500	519,309	519,309	519,309
Revenue	$2,841,171	$6,212,321	$6,212,321	$6,212,321
Expenditure	$3,062,671	$5,814,427	$5,204,952	$5,387,355
Operational Performance (Net Result)	**($221,500)**	**$397,894***	**$1,007,369***	**$824,966***
Depreciation	Not provided	$1,400,000	$1,400,000	$1,400,000
Centre Performance (Net Result)	Not provided	($1,002,106)	($392,631)	($575,034)

** Excludes pre-opening operational costs*

The internal management model (excluding commercial lease income) projections indicate:

Visitation

YEAR 1 474,495 » **YEAR 10** 527,217

An annual average visitation of 519,309 visits.

Expenditure

YEAR 1 $5,015,298 » **YEAR 10** $6,663,342

An annual average expenditure of $5,245,746.

Revenue

YEAR 1 $4,834,213 » **YEAR 10** $7,304,551

An annual average revenue of $6,212,321.

Operational surplus

YEAR 1 $181,085 » **YEAR 10** $641,209

An annual average surplus of $360,229.

Pre-opening costs

of $376,650 have been assumed for the facility start up prior to year 1 operations.

Annual depreciation

The model has factored in an estimated annual depreciation of $1.4 million which has been phased over the 10 years.

Centre performance deficit (inclusive of depreciation)

YEAR 1 $1,581,085 » **YEAR 10** $758,791

An annual average Centre Performance deficit of ($1,002,106) over a 10-year period (inclusive of depreciation).

The external management model (excluding commercial lease income) projections indicate:

Visitation

YEAR 1 474,495 » YEAR 10 527,217

An annual average visitation of 519,309 visits.

Expenditure

YEAR 1 $4,504,577 » YEAR 10 $5,947,964

An annual average expenditure of $5,204,952.

Pre-opening costs

of $407,938 have been assumed for the facility start up prior to year 1 operations.

Revenue

YEAR 1 $4,834,213 » YEAR 10 $7,304,551

An annual average revenue of $6,212,321.

Operational surplus

YEAR 1 $329,636 » YEAR 10 $1,356,587

An annual average surplus of $1,007,369.

Annual depreciation

The model has factored in an estimated annual depreciation of $1.4 million which has been phased over the 10 years.

Centre performance deficit (inclusive of depreciation)

YEAR 1 $1,070,364 » YEAR 10 $43,413

An annual average Centre Performance deficit of ($392,637) over a 10-year period (inclusive of depreciation).

The company limited by guarantee management model (excluding commercial lease income) projections indicate:

Visitation

YEAR 1 474,495 » **YEAR 10** 527,217

An annual average visitation of 519,309 visits.

Revenue

YEAR 1 $4,834,213 » **YEAR 10** $7,304,551

An annual average revenue of $6,212,321.

Expenditure

YEAR 1 $4,664,471 » **YEAR 10** $6,154,727

An annual average expenditure of $5,387,355.

Operational surplus

YEAR 1 $169,742 » **YEAR 10** $1,149,824

An annual average surplus of $824,966.

Pre-opening costs

of $1,529,438 have been assumed for the facility start up prior to year 1 operations.

Annual depreciation

The model has factored in an estimated annual depreciation of $1.4 million which has been phased over the 10 years.

Centre performance deficit (inclusive of depreciation)

YEAR 1 $1,230,258 » **YEAR 10** $250,176

An annual average Centre Performance deficit of ($575,034) over a 10-year period (inclusive of depreciation).

3.1.2. Including Food and Beverage Commercial Lease Revenue Scenarios

Table 2: High Level Summary - Internal and External Management Models (including lease income)

PERFORMANCE INDICATOR	2018/19 ACTUAL OPERATING PERFORMANCE	INTERNAL MANAGEMENT MODEL (10 YEAR AVERAGE)	EXTERNAL MANAGEMENT MODEL (10 YEAR AVERAGE)	COMPANY MODEL (10 YEAR AVERAGE)
Visitations	384,500	519,309	519,309	519,309
Operating Revenue		*$6,212,321*	*$6,212,321*	*$6,212,321*
Commercial Lease Revenue		*$781,272*	*$781,272*	*$781,272*
Total Revenue	$2,841,171	$6,993,593	$6,212,321	$6,993,593
Expenditure	$3,062,671	$5,980,180	$5,298,705	$5,540,299
Operational Performance (Net Result)	**($221,500)**	**$1,085,414***	**$1,694,889***	**$1,453,294***
Depreciation		$1,400,000	$1,400,000	$1,400,000
Centre Performance (Net Result)		($314,586)	$294,889	$53,294

** Excludes pre-opening operational costs*

3.2. LOAN BORROWINGS

In order to assess the impact of additional loan borrowing required to fund the redevelopment works, three potential capital cost scenarios of $75 million, $80 million and $90 million have been assessed.

Noting that Council has already sourced an initial loan of $31 million at an interest rate 4.24% for the anticipated project costs, the total annual repayments have been estimated at:

- $3,382,569 per annum based on a project capital cost of $75,000,000.
- $3,778,357 per annum based on a project capital cost of $80,000,000.
- $4,569,933 per annum based on a project capital cost of $90,000,000.

Based on the most conservative approach of an internal management model that excludes revenue from commercial leases, Council will need to allocate between $4.9 million and $6.1 million from year 1 to service the existing and additional capital cost borrowings. The ten-year modelling shows the repayments will slightly decrease over time as the North Sydney Olympic Pool operating surplus improves.

3.3. HIGHEST AND BEST ECONOMIC USE – HEALTH AND FITNESS AREAS

A comparison of the forecast operational performance of the health and fitness areas with potential other uses has been developed to determine if health and fitness offerings are the highest and best economic use for this space.

The commercial lease rates used for the café have been used for this comparison. Whilst it is acknowledged that an additional food and beverage offering would not be recommended, the use of these rates were deemed suitable for comparative purposes.

Table 3: Summary of the Highest and Best Use Modelling

TYPE OF USE	ANTICIPATED OPERATING SURPLUS
Health and Fitness Services (Managed by operator, not leased to third party)	$1,702,823 per annum
Alternate commercial activity (not commercial gym operator) i.e., functions, retail, events	$549,147 rent per annum
Net Variance/Yield (Health and Fitness Services – Highest and Best Use)	$1,153,676 per annum

Based on the above, the planned health and fitness is forecast to generate a higher economic return compared to other commercial purposes. The additional economic return generated by health and fitness offerings is estimated to be $1,153,676 per annum.

Other Considerations

In undertaking the economic comparison of the forecast operational performance of the health and fitness areas with potential other uses, the following key considerations should be noted:

- Centre membership numbers are most successful with integrated service provision models – one stop shop (wet and dry programs and services).
- High yield health and fitness operations are required to cross subsidise high-cost aquatic operations.
- Health and fitness services provide significant economic, social and health benefits.

4. MANAGEMENT OPTIONS

4.1. OVERVIEW

Research and industry trends indicate that the main management models currently operating in the Australian aquatics leisure industry include:

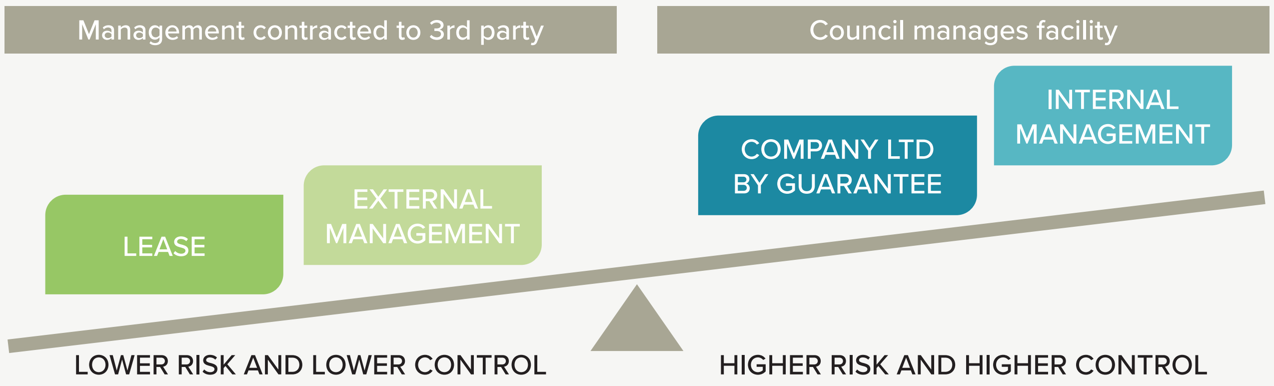
INTERNAL MANAGEMENT	EXTERNAL MANAGEMENT	LONG TERM LEASE	COMPANY LIMITED BY GUARANTEE
This is the most traditional model where a Council directly employs management and staff to operate the aquatic facilities. This management model allows Council full control of operations, pricing, programming, asset management and staffing.	This is where a Council contracts the management of the aquatic facilities to either a professional contract management company to operate all facilities. This is usually done through detailed specification and a contract for an agreed term and set of conditions that binds each party.	This model is used particularly when Council is seeking capital investment as part of the management process and therefore is prepared to enter a long term (usually 10 years plus) lease that allows management to operate the facilities usually with minimal controls or operating requirements.	This model is an emerging one and involves Council setting up a separate wholly owned company to manage and operate the facilities on its behalf. This model allows the company to be in control of all facilities based on the Management Services Agreement and operate within a, more commercial environment.

RISK VS CONTROL

All aquatic facility management models have a range of differences, but they can be defined by some common linkages into two groups linked by:

Level of control Council wants or is prepared to give away

Level of risk Council is prepared to take or want to give away.



4.2. CONSIDERATIONS COMPARISON

In determining a preferred facility management model, Council should assess a range of considerations. The table below provides a high-level analysis of each of the four models across key planning considerations

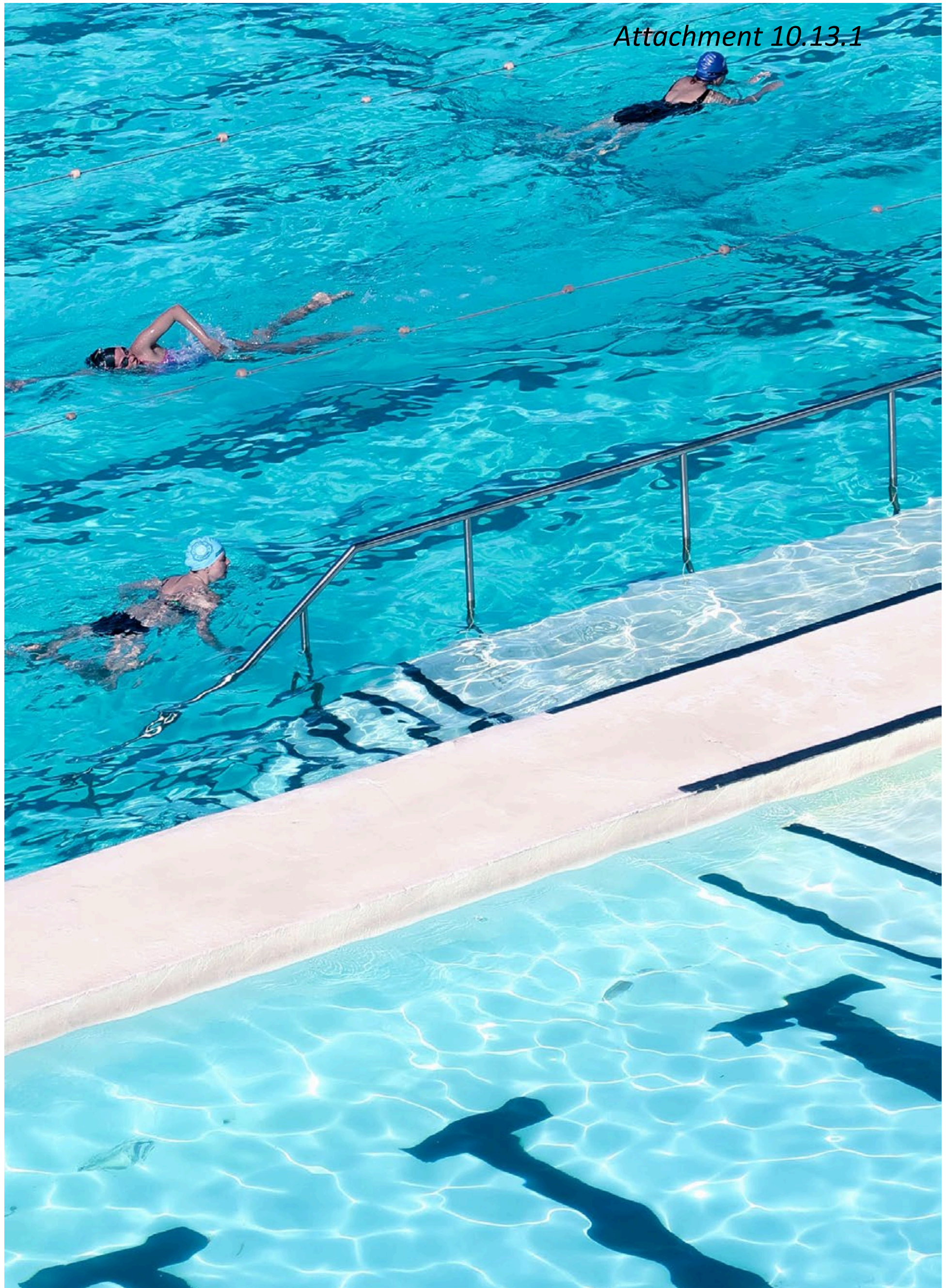
Table 4: Management Model Considerations

CONSIDERATIONS	INTERNAL	EXTERNAL	COMPANY	LEASE
Financial sustainability	🔴	🟢	🟠	🟢
Time and complexity to implement and operate the Management Model	🟠	🟢	🔴	🟠
Strategic alignment with Council objectives	🟢	🟠	🟢	🔴
Impact on organisational risk profile	🔴	🟢	🟠	🟢
Capacity for Council to control and influence operations	🟢	🟠	🟠	🔴
Asset Management	🟢	🟠	🟢	🔴
Industry Expertise	🟠	🟢	🟢	🟢

4.3. IMPLEMENTATION TIMING

The indicative timing to implement each management option is outlined below:

- **EXTERNAL** – 12 months approx.
- **LEASE** – 12 months approx.
- **INTERNAL** – 12-18 months approx.
- **COMPANY LIMITED BY GUARANTEE** – 18-24 months approx.



5. WARRANTIES AND DISCLAIMERS

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We have not conducted an audit of the information provided by others but have accepted it in good faith. Some of the information may have been provided 'commercial in confidence', and these venues or sources of information are not specifically identified. Readers should be aware that the preparation of this report may have necessitated projections of the future that are inherently uncertain and that our opinion is based on the underlying representations, assumptions and projections detailed in this report.

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