

8.27 Sport and Health Centre of Excellence Proposal

Division

City Lifestyles

Reporting Officer

Director City Lifestyles

Attachments

Deloitte Campbelltown Sports and Health Centre of Excellence Business Case (distributed under separate cover due to confidentiality)

Purpose

To provide an update to Council on the Sport and Health Centre of Excellence proposal, including advice on receipt of funding from the Federal Government, Department of Infrastructure and Regional Development and its requirements.

Further, the report provides options for Council's consideration in light of recently received revised cost estimates for the delivery of the project which indicate a significant increase in cost to successfully deliver the originally envisaged project.

History

Council at its meeting held 9 June 2015 resolved:

1. That Council commit to contributing up to \$5m towards the development of a Regional Sport Centre of Excellence in the Campbelltown Local Government Area conditional upon:
 - i. a successful application to the Federal Government for funds towards the development of a regional sport centre of excellence in the Campbelltown Local Government Area (LGA)
 - ii. presentation to Council of funding options for Council's commitment of up to \$5m as part of the 2016-2017 budget process.
2. That Council negotiate with other key partners including the State Government to contribute to the project.

Report

Background

On 24 February 2015 and 4 August 2015, Council was briefed on an opportunity to develop a Sport and Health Centre of Excellence in the Campbelltown LGA.

Council then considered a report on the proposal at its meeting held on 9 June 2015, at which time Council resolved to commit up to \$5m in funding towards to the project. The project at this time was estimated to be \$17.26m for the 7,665m² facility.

Council subsequently submitted a grant application to the Federal Government under the Stronger Regions Fund in late 2015 and then a further application in a later round in early 2016 for \$8.63m, on the basis of 50/50 funding between the Federal Government Grant Program and the balance of the costs to deliver the project. The balance of project costs was to be met through a combination of Council funds of \$5m and then financial partners.

Funding under this partnership arrangement was secured from UrbanGrowthNSW through a Voluntary Planning Agreement (VPA) (\$1.58m) and the Western Sydney University (\$1.4m). Other potential partners provided letters of support for the application with conditional and unconfirmed financial contributions, totalling approximately \$600,000.

To support this application a business case was developed in conjunction with Deloitte Access Economics that focussed the case for change in the strategic context, analysis of the proposal and options for implementation.

Council received advice early September 2016 from the Minister for Regional Development, that under the Coalition Governments election commitment, \$7.2m would be provided for the Campbelltown Centre of Sport and Health Excellence.

To formally accept this offer of funding Council is required to respond to the Federal Government to confirm the project and to formally enter into a Deed of Agreement. Council is required to provide this notification within three months from the date of notification, however Council sought an extension and this has been approved until 31 January 2017.

A Councillor briefing was held on 6 December 2016 to provide an update on the project; advise of the Federal Government commitment of funding and its requirements; advise of the revised cost estimates and to seek direction on options going forward.

Strategic Context

Campbelltown City is recognised as a regional city in South Western Sydney and is one of the fastest growing areas of NSW. The current population of 158,000 is expected to increase to approximately 300,000 in the next 15 years. In this context Council is repositioning Campbelltown and in particular the precinct around the University, TAFE and Hospitals as an educational and medical hub.

The draft Sport and Recreation Strategy identifies the Centre of Excellence as a short term strategy to address future land needs for sporting facilities (2.2.3): ensure community access to sport and recreation facilities at the Western Sydney University Sports Centre of Excellence.

The business case developed in March 2016 highlights that through the proposal the community's access to a collaborative education, health and wellbeing community hub that is modern and flexible, will help unlock a broad range of health, social and economic benefits; which will support the regional development efforts underway at Commonwealth and State Government levels.

The business case states that the proposal will:

- lead to improved physical and mental health and mental wellbeing through greater participation in physical recreation and exercise across the community, especially among those not previously engaged, as well as rehabilitation facilities. This aligns strongly with the goals of the Australian Sports Commission, such as addressing community sport infrastructure
- provide secure facility access to sports organisations such as the Western Suburbs District Junior Rugby League, South West Sydney Academy of Sport and the Australian Football League, while providing capacity for emerging sports such as badminton and martial arts, as well as supporting the community need for recreation in South West Sydney
- form the node of a future training and sports science precinct within South West Sydney, attracting elite athletes from the wider Sydney area as well as retaining local sporting talent. Such a precinct would provide pathways for junior athletes to the elite level, and being co-located with WSU, build on excellence in sports science research
- improve quality of life and amenity through access to high quality sporting facilities and specialist rehabilitative and sport science facilities such as hydrotherapy, and Western Sydney University clinic reducing the time they need to travel across Sydney to access facilities that meet their needs. The facility will also serve as a valuable resource in youth outreach activities, seeking to improve engagement with disaffected groups and address rising issues such as youth suicide, depression and drug use
- help build social capital by creating a more inclusive community. The facility will serve as a vehicle for fostering greater social connections; building a collective community identity and growing trust across community groups. As a community hub, the facility will promote cultural and social expression providing greater connectedness between cultural groups
- represent a significant boost to and enabler of economic development in the region. Initially this represents new investment and employment opportunities during the construction phase, while the ongoing multiplier related to elite training and sports science research will create inbound opportunities for the broader community along a knowledge jobs framework

- further with the development of a second airport, the facility has the opportunity to become a world renowned elite sporting facility for the region, which will trigger associated investments in accommodation, hospitality and retail to attract and retain this business activity. This aligns strongly with the goals of A Plan for Growing Sydney.

The proposed Centre of Excellence brings these elements together and supports the broader strategic directions.

Key Project Objectives and Components

The proposed Sports and Health Centre of Excellence combines elite sports training facilities, administration and operational spaces with community spaces and programs as well as a fully functional Community Health Centre. These facilities are proposed to be used under a collaborative and shared arrangement to promote sporting participation, education and health and wellbeing in a community hub model.

The proposed Centre of Excellence aims to:

1. remedy the social infrastructure deficiency affecting high schools and other community and sporting groups by increasing access to contemporary sports and recreation facilities
2. support activities for disabled, disaffected and disadvantaged members of the community
3. promote excellence in professional sports and increase elite athlete activity in the region
4. Improve the community's overall health and wellbeing through increased participation in sporting and recreational activities
5. provide a facility with the capacity and flexibility to accommodate current and expected future community demands
6. develop a self-sustaining community facility that does not require ongoing Government support
7. develop regional infrastructure that contributes to future economic growth and prosperity.

Outcomes to be delivered to the community through such a facility include:

- increased levels of community cohesion and engagement, leading to the formation of formal and informal networks between different groups in the community
- regular participation in sporting and cultural activities that previously had no, or minimal presence in the region
- added research potential particularly around sports science and sports medicine for elite athletes
- a facility that can maintain a high-level of service and capabilities due to its financial self-sufficiency
- increased viability of the region as a location for business and residence, and the associated decrease in the number of individuals that are forced to commute to work from the region
- greater social connectedness for marginalized sections of society such as the elderly, the disabled and disenfranchised youth.

- attraction of elite athletes and practitioners of sports excellence to the region including support services around the identification of talent, professional training and rehabilitation and further pathways
- enlarging the footprint of volunteers and sporting and community groups, and increasing their capacity to promote sport through education and collaboration.

Components

The Sport and Health Centre of Excellence has the following key elements:

- community facilities and programs
- community health centre and clinician rooms
- elite sports training facilities
- shared meeting and education facilities
- commercial opportunities (e.g. cafés, fitness centre).

Although sport would be a strong focus of the facility at all levels of ability, community development and access is imperative. The provision of rehabilitation facilities for people with disabilities and senior residents was included as part of the facility as was learn to swim for all age groups in a specialised hydrotherapy pool.

Community meeting rooms, education classrooms, rehabilitation facilities (including hydrotherapy) open space; indoor sports facilities, public gymnasium, informal meeting spaces and a cafe are also included in the scope and concepts for the facility.

Current Situation

Federal Government Funding Offer

Council is required to provide advice to the Federal Government by the end of January 2017, in line with the extension of time provided. In preparation for this, further advice was sought from Architects Scott Carver and their quantity surveyors WT Partnership to confirm costs as well as further discussion with key partners.

Partnerships

As advised in February 2015 and subsequent presentations, a key element to the success of the Centre of Excellence is the contribution of various partners both in the capital phase as well as in the ongoing management arrangements.

The two key and confirmed partners are Western Sydney University (WSU) and UrbanGrowthNSW.

WSU are seeking to have an innovative and significant footprint within the facility. In this model they aim to bridge the gap between future practical workforce training, industry engagement, research translation and community service.

UrbanGrowthNSW is acting as the developer in the Macarthur Heights precinct, where the proposed facility is located. This development is being delivered by WSU and UrbanGrowthNSW.

The site proposed is on land which will ultimately be transferred to Council under an associated VPA. Under this VPA, UrbanGrowthNSW will be delivering two playing fields and car parking as well as funds towards the Centre of Excellence.

Initial planning and business case development has been based on the Centre of Excellence building being delivered separately to the adjacent playfields. UrbanGrowthNSW has advised that they will commence design work early 2017 for these works and are keen to work with Council to ensure integration with any facility delivered. There are opportunities, if the proposal proceeds, to strengthen and leverage off a stronger partnership with UrbanGrowthNSW.

A range of State sporting codes as well as local sporting organisations have also expressed interest in the Centre of Excellence. At this stage these have been only expression of interest and are subject to further discussions and negotiation, subject to the outcome of Council's consideration of this report.

Set out below is a table of the current situation in relation to partners and their contributions:

Name	Confirmation	Funding
Federal Government	Confirmed	\$7.2m
Councils Commitment	Confirmed	\$5m
UrbanGrowthNSW – VPA * +\$5.5M playing fields	Confirmed	\$1.58m
WSU	Confirmed	\$1.4m
Secured funding		\$15.18m
Cricket NSW	Conditional	\$100k +
AFL NSW/ACT	Conditional	\$250k
West's Tigers	Conditional	\$250k +
Total		\$15.78m

Revised Costs Estimates

Council had submitted the grant application to the Stronger Regions Fund based on a building size for stage 1 for 7,665 square metres with a cost estimate of \$17.26m. Council had in principal partnerships and funding commitments of \$8.63m, and was seeking dollar for dollar matched funding in the application to the Federal Government.

Council has been notified of a \$7.2m funding commitment from the Federal Government, and is required to confirm the final scope and financial partners in order to accept and enter into a Deed of Agreement with the Government to release the funds.

Following advice of the Federal Government funding offer, a review of estimated costs was undertaken in light of building escalation costs and also to ensure that the full project costs were considered. That is, from the time of formally committing to the project via the Deed of Funding through to becoming operational with all tenants in place.

To assist in this Scott Carver Architects, who prepared the original concepts and WT Partnership who prepared the original QS report were re engaged to provide advice. WT Partnership has significant experience in facility costing, and previously provided advice to Council on the Campbelltown Sports Stadium upgrade in 2009-2010.

WT Partnership subsequently provided a revised cost estimate for the project, which indicates that the Centre, originally estimated at a cost of \$17.26m will be in the order of \$26.22m to deliver, based on construction commencing mid next year.

This revised cost estimate is based on the original floor space of 7,665m². The cost estimate escalation is due to applying:

- construction escalation costs between March 2016 and now
- cost escalation (including contingency) through to the estimated completion date of late 2019
- furniture, fittings and equipment (FFE) costs. This represents a significant portion of the increased cost, i.e. an estimated \$3.366m. This was not included in the original construction costing, but integrated as an option in the management model
- project delivery costs associated with operationalising the site
- a conservative approach given the lack of detail design and timeframes being unknown.

The funding application within the business management model relied on organisations renting the facility to enter into agreements with it unfurnished and therefore they would be responsible for organising their own furniture. Other forms of fit out were costed as an operational lease expense. As the management model is not finalised with Council, it is important to include these cost as a potential risk to Council if organisations require a fully furnished facility.

The reviewed project cost is estimated to increase to \$26.22m.

The increased cost estimate, combined with a lower than anticipated Federal Government grant has resulted in a significant funding gap of approximately \$10.4m to deliver the project as originally intended.

In considering the implications of this for the project, it is also important to be mindful of the constraints and commitments made by WSU and UrbanGrowthNSW towards the project.

In summary:

- WSU committed \$1.4m on the basis that it would be matched dollar for dollar to provide a community health centre and clinician space (1,000m²)
- UrbanGrowthNSW contribution of \$1.58m is a cash contribution in the provision of sports courts, change facilities for the fields, children's playground, and additional car parking to the sports precinct
- Federal Government committed \$7.2m based on providing elite sports training, administration and operational spaces, as well as sports and recreational areas for the community and special-use programs for the elderly and people with a disability.

Options for consideration

Four options are provided to Council for consideration. These are set out below:

Option 1: Scale down the project to minimum requirements to match available funding

Project Cost: \$15.83m, Total Council Commitment: \$5m, no additional funding required

In considering this option, to achieve the required \$15.83m, including all construction, fit out costs, as well as additional escalation costs, approximately 2,500 square metres would be reduced from the building.

In order to achieve this reduction, a significant decrease to the community office space, indoor sports hall, gym, and potentially hydrotherapy pool would need to be made.

As a third of the facility would be reduced, Council would be required to redesign the building and provide evidence that the community health centre and sport clinician space could still progress to the scale and programs to meet the funding requirements of both WSU and the Federal Government.

In this option there is significant risk that the reduction in these operational spaces will impact on partnership funding, in addition to decreasing revenues that were designed to operate the facility at operational neutrality.

A full redesign of the concept plans would be required to be resubmitted to the Federal Government including a revised project viability, sustainability and proponent viability including confirmation of funding partners.

A redesign and business case is in the order of \$120,000 in order to provide the necessary detail to the Federal Government to accept the funding.

Option 2 - Partial modification to size and scope, but still require additional funds to complete

Project Cost: \$20m. Total Council Commitment: \$10m, an additional \$5m will be required

This option is designed to still reduce the size of the facility and therefore the construction costs, while maintaining the operation desired outcomes, by maintaining most of the funding partners and some of the main revenue streams.

This option still has inherent risks as a full redesign would be required to reassess anticipated efficiencies and the corresponding business case and management plan.

A desk top analysis utilising the figures provided from WT Partnership, indicates that a \$20m construction and furnished facility would provide the two indoor sports courts. However the indoor cricket and multipurpose court would need to be removed as well as a reduction of 1,000m² of space associated with the community rooms, café, and gym facilities.

Operational revenue would be affected and it is unlikely the facility would operate at cost neutrality. Council would therefore be subsidising the operational costs over the lifetime of the facility.

Option 3 - Deliver project with current size and scope

Project Cost: \$26.22m. Total Council Commitment: \$15m, an additional \$10m will be required

This option maintains the 7,665m² facility, fully inclusive of the community health centre, indoor sport facility, education rooms, and community office space as well as all the commercial spaces.

It provides the holistic service provision to the community and range of sport organisations and expected users.

Council Officers can continue to actively pursue additional funding opportunities and partnerships to reduce the cost to Council, this can include:

- working with both State members to seek their support to secure State Government funding, as to date no State Government grant funds have been received
- exploring further partnerships and negotiating greater contributions
- considering project delivery opportunities in conjunction with UrbanGrowthNSW to achieve economies of scale in the delivery of the Centre of Excellence in conjunction with the adjacent sporting fields and ancillary facilities
- mitigating some of costs through the terms of lease/license agreements there is still significant cost to consider.

However, if additional funding and/or costs cannot be achieved the shortfall would be the responsibility of Council.

Option 4 - Not to proceed with the Centre of Excellence project

Project Cost: \$N/A. Total Council Commitment: \$N/A

Council may decline the Federal Government funding offer of \$7.2m and advise partners that the project will not proceed as envisaged.

As part of the Voluntary Planning Agreement and construction works at the WSU site, the playing fields, a playground and some minor community infrastructure (e.g. toilets, change rooms) would be provided as part of that development to support the playing fields.

Director City Governance Comment:

In developing a Finance and Governance framework for both funding and probity there are a number of factors that Council should take into consideration.

It is important for Council to be presented with modelling that ensures that the financial sustainability indicators relating to the Fit for the Future are maintained if Council were to proceed with any proposal. Modelling has been developed for funding options, including accessing both internal and external borrowing facilities. It should be noted that the interest rate in both cases is consistent whichever facility is taken up at the time of borrowing.

Assumptions are based on Option 3 which would appear to be the largest funding exposure to Council. The two key performance indicators that Council need to consider relate to the debt service ratio and operating ratio. Both of these indicators reflect Council's ability to service debt as well as Council operating at a net surplus on an ongoing basis.

Current projections reflect that Council will need to borrow \$15m as identified under Option 3. It needs to be highlighted that these assumptions as to the total cost of the project and borrowing are a worst case scenario and that Council will not need to allocate any further funds. It should also be highlighted that depending on the potential business partners, Council may not need to borrow the total amount of \$15m.

Financial modelling reflects that the debt service ratio will be maintained at an acceptable level between 3-4 per cent which is well within an acceptable benchmark. Modelling has been based on interest rates between 2.5 per cent and 4.5 per cent. Total debt service costs equate to between \$1.7m and \$1.9m per annum depending on the interest rate available at the time of borrowing.

It should be noted, that being assessed as Fit for the Future, Council can access the Treasury borrowing facility that currently stands at 2.5 per cent. In terms of Council's financial position, this is an acceptable benchmark.

Council will need to consider the effects on the operating performance ratio which caused a difficulty in Council's original submission under the Fit for the Future program, where Council was assessed as not fit. Modelling has taken into consideration an interest component of approximately \$360,000 per annum at the commencement of the term of borrowing. Interest over the term of the project totals approximately \$2m which will be funded from the net operating costs of the facility. On current estimates, it would appear that the operating ratio will not be compromised by the proposal given the projected revenue streams.

The Deloitte Business Case of March 2016 reflects an income stream over a ten year period in excess of \$14m. It is recommended that, if Council adopts a proposal a KPI should be developed that would cater for the interest component of the loan as well as depreciation being covered by the net operation costs of the facility.

This would reflect to the community that Council in accepting the proposal to move forward with a Centre of Excellence will not compromise Council's sustainability in being 'Fit for the Future'.

The development of any proposal other than Option 4 will require a comprehensive governance framework. Under current guidelines from the Office of Local Government and depending on the relationship of the business partners this may trigger the requirements of a Public Private Partnership (PPP) which are quite extensive and would reflect best practice. This may be a model that will be adopted even if the partnerships do not trigger a PPP. If the project is not considered to be a PPP then a Capital Expenditure Review will be required to be submitted to the Office of Local Government.

In conclusion given the current proposal and business case as developed by Deloitte in March 2016, and as reflected under current modelling, the proposal would not compromise Council's Fit for the Future position. Council will need to implement a rigorous governance and probity regime to ensure that the project complies with all requirements of the Office of Local Government.

Pending the option adopted by Council, further development of the business case and revenue streams must be developed for Council's consideration. KPI's should be adopted as indicated in the body of this report to ensure that the Centre maximises its potential and ensures Council's ongoing sustainability.

Conclusion

There are a range of potential benefits to be realised through the delivery of the Sports and Health Centre of Excellence. The proposal supports a range of strategic objectives for Council in terms of repositioning Campbelltown to reflect its status as a regional city, strengthening the health and medical precinct and growing knowledge based jobs in the region.

Further the proposed Centre will deliver a range of sporting and recreation outcomes for community based groups, through to elite sports people; provide a facility to a new and growing community and meet the current shortage of indoor courts and provide for additional outdoor fields.

However the revised cost estimates for the original proposal to be delivered are significant. If Council supports the delivery of the project as originally intended in Option 3, there is an additional financial commitment of \$10m on top of the original \$5m to bring the total commitment by Council to \$15m.

In considering the various options Council needs to balance the strategic and community benefit with the financial investment in such a facility.

As a growing and changing LGA there are many demands on Council's resources. This includes the provision of a range of infrastructure to support community needs, in particular around the Campbelltown CBD as well as other transport/connectivity related infrastructure.

Officer's Recommendation

That Council determine which option it wishes to pursue.