

MINUTES

Special Council Meeting

30 March 2023

Mayor and Councillors

Here within are the Minutes of the Special Council Meeting of the City of South Perth Council held Thursday 30 March 2023 in the City of South Perth Council Chamber, corner Sandgate Street and South Terrace, South Perth.



MIKE BRADFORD
CHIEF EXECUTIVE OFFICER

3 April 2023

Acknowledgement of Country

Kaartdjinin Nidja Nyungar Whadjuk Boodjar Koora Nidja Djining Noonakoort kaartdijin wangkiny, maam, gnarnk and boordier Nidja Whadjuk kura kura.

We acknowledge and pay our respects to the traditional custodians of this land, the Whadjuk people of the Noongar nation and their Elders past and present.

Our Guiding Values



Disclaimer

The City of South Perth disclaims any liability for any loss arising from any person or body relying on any statement, discussion, recommendation or decision made during this meeting.

Where an application for an approval, a licence or the like is discussed or determined during this meeting, the City warns that neither the applicant, nor any other person or body, should rely upon that discussion or determination until written notice of either an approval and the conditions which relate to it, or the refusal of the application has been issued by the City.

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Special Council Meeting - Minutes

Minutes of the Special Council Meeting held in the City of South Perth Council Chamber, corner Sandgate Street and South Terrace, South Perth at 6.00pm on Thursday 30 March 2023.

1. DECLARATION OF OPENING

The Presiding Member opened the meeting at 6.01pm and welcomed everyone in attendance.

Councillor Glenn Cridland was authorised to attend the meeting via telephone in accordance with regulation 14C and 14CA of the Local Government (Administration) Regulations 1996.

2. ANNOUNCEMENTS FROM THE PRESIDING MEMBER

Nil.

3. ATTENDANCE

Mayor Greg Milner (Presiding Member)

Councillors

Como Ward
Como Ward
Manning Ward
Manning Ward
Moresby Ward
Moresby Ward
Mill Point Ward

Councillor Nick Warland
Councillor Glenn Cridland (via audio link)
Councillor Blake D’Souza
Councillor André Brender-A-Brandis
Councillor Jennifer Nevard
Councillor Stephen Russell
Councillor Mary Choy

Officers

Chief Executive Officer
Director Corporate Services
A/Director Development and Community Services
Director Infrastructure Services
Manager Customer, Communications & Engagement
Manager Finance
Manager Governance
Communications and Marketing Coordinator
Governance Coordinator
Project Lead
Senior Governance Officer
Governance Administration Officer
Governance Officer

Mr Mike Bradford
Mr Garry Adams
Mr Patrick Quigley
Ms Anita Amprimo
Ms Danielle Cattalini
Mr Abrie Lacock
Ms Bernadine Tucker
Ms Karys Nella
Ms Toni Fry
Ms Rebecca de Boer
Ms Christine Lovett
Ms Shannon Renner
Mr Morgan Hindle

Guests

Mr Geoff Baker MLA

Gallery

There were approximately 45 members of the public present.

3.1 APOLOGIES

Nil.

3.2 APPROVED LEAVE OF ABSENCE

- Councillor Glenn Cridland for the period 14 March 2023 to 31 March 2023 inclusive.
- Councillor Ken Manolas for the period 28 March 2023 to 30 April 2023 inclusive.

4. DECLARATIONS OF INTEREST

Nil.

5. PUBLIC QUESTION TIME

5.1 PUBLIC QUESTION TIME: 30 MARCH 2023

The Presiding Member opened Public Question Time at 6.03pm.

Written questions were received prior to the meeting from:

- Joanne Ord of Como.
- Katherine Jafari of Waterford. (question and response was not read out at the meeting)

A table of questions received and answers provided can be found in the **Appendix** of these Minutes.

The Presiding Member then closed Public Question Time at 6.07pm.

Councillor Glenn Cridland disconnected from the meeting at 6.28pm and reconnected at 6.32pm during consideration of Item 6.

6 DEPUTATIONS

Deputations were received prior to the meeting and heard as follows:

- Mr Jordan Anthony Smith of Como.
- Ms Cecilia Brooke of South Perth.
- Mr Trevor Hill of South Perth.
- Mr Bob Mitchell of South Perth.
- Mr George Watts of Karawara.
- Ms Vicki Redden of South Perth.

7. REPORTS

7.0 STRATEGIC DIRECTION 1: COMMUNITY

Councillor Glenn Cridland disconnected from the meeting at 6.59pm and reconnected at 7.03pm.

Councillor Blake D'Souza left the Chamber at 7.28pm and returned at 7:30pm.

Councillor Glenn Cridland disconnected from the meeting at 7.38pm and reconnected at 7.44pm.

7.0.1 Recreation and Aquatic Facility

File Ref: D-23-9218

Author(s): Rebecca de Boer, Project Lead

Reporting Officer(s): Anita Amprimo, Director Infrastructure Services

Summary

This report provides the City's response to the resolution passed by Council at the Special Council Meeting of 1 November 2022 regarding the proposed staging of the Recreation and Aquatic Facility (RAF).

It is clear from the City's current review of the project that the proposed RAF Stage 1 is not viable given the project parameters endorsed by Council. In this context, the City is unable to recommend to Council to proceed with RAF Stage 1.

Alternative Motion

Moved: Councillor Nick Warland

Seconded: Mayor Greg Milner

That Council:

1. Notes the Officer Report, and in particular, highlights that:
 - (a) *“the advice and information used to prepare the 2020 RAF Business Case documents were reflective of the circumstances at that time”*; and
 - (b) *“the combined impact of a rapid increase in interest rates, capital funding shortfall and delays to the RAF Project since 2020 have contributed to the City's assessment that RAF Stage 1 is no longer viable”*.
2. Notes:
 - (a) that the original funding proposal from the City to the State Government of \$20 million (**2021 State Government Funding Proposal**) was submitted in October 2021;
 - (b) Councillor Resolution Number 0922/154, Item 12.1 Notice of Motion - Councillor Mary Choy – RAF (**Cr Choy Motion**), appearing at Item 12.1 of the Minutes of the Ordinary Council Meeting dated 27 September 2022; and

- (c) that the letter received from the Hon David Templeman MLA dated 23 January 2023 in response to the Cr Choy Motion, states “ *the State Government has not yet made any final decision on your funding request*”.
3. Requests the Chief Executive Officer write to the Hon David Templeman MLA and to Mr Geoff Baker MLA:
- (a) to update the State Government on the current status of the RAF Project;
- (b) to advise that the RAF Project is considered unviable and will not proceed unless the current capital shortfall is addressed; and
- (c) to call upon the State Government to commit to providing the final \$20 million in capital funding necessary to deliver Stage 1 of the RAF Project, and advise the City of South Perth of the State Government’s decision either prior to (or at the same time that) the 2023/24 State Budget is delivered.
4. Requests the Chief Executive Officer to investigate methods of financing the estimated annual operating deficit of the RAF, to be presented to Council at a workshop to be held not later than 31 May 2023.

COUNCIL DECISION

0323/053

Moved: Mayor Greg Milner**Seconded:** Councillor Blake D'Souza

In accordance with Clause 8.10 of the City of South Perth Standing Orders Local Law 2007 Councillor Nick Warland be granted an additional five minutes to speak.

CARRIED (8/0)

For: Mayor Greg Milner, Councillors André Brender-A-Brandis, Mary Choy, Glenn Cridland, Blake D'Souza, Jennifer Nevard, Stephen Russell and Nick Warland.

Against: Nil.**COUNCIL DECISION**

0323/054

Moved: Councillor Nick Warland**Seconded:** Councillor Glenn Cridland

In accordance with Clause 8.10 of the City of South Perth Standing Orders Local Law 2007 Mayor Greg Milner be granted an additional five minutes to speak.

CARRIED (8/0)

For: Mayor Greg Milner, Councillors André Brender-A-Brandis, Mary Choy, Glenn Cridland, Blake D'Souza, Jennifer Nevard, Stephen Russell and Nick Warland.

Against: Nil.

COUNCIL DECISION

0323/055

Moved: Mayor Greg Milner

Seconded: Councillor Nick Warland

In accordance with Clause 8.10 of the City of South Perth Standing Orders Local Law 2007 Councillor André Brender-A-Brandis be granted an additional five minutes to speak.

CARRIED (8/0)

For: Mayor Greg Milner, Councillors André Brender-A-Brandis, Mary Choy, Glenn Cridland, Blake D'Souza, Jennifer Nevard, Stephen Russell and Nick Warland.

Against: Nil.

COUNCIL DECISION

0323/056

Moved: Mayor Greg Milner

Seconded: Councillor André Brender-A-Brandis

In accordance with Clause 8.10 of the City of South Perth Standing Orders Local Law 2007 Councillor Mary Choy be granted an additional five minutes to speak.

CARRIED (8/0)

For: Mayor Greg Milner, Councillors André Brender-A-Brandis, Mary Choy, Glenn Cridland, Blake D'Souza, Jennifer Nevard, Stephen Russell and Nick Warland.

Against: Nil.

COUNCIL DECISION

0323/057

Moved: Mayor Greg Milner

Seconded: Councillor Nick Warland

In accordance with Clause 8.10 of the City of South Perth Standing Orders Local Law 2007 Councillor Glenn Cridland be granted an additional five minutes to speak.

CARRIED (8/0)

For: Mayor Greg Milner, Councillors André Brender-A-Brandis, Mary Choy, Glenn Cridland, Blake D'Souza, Jennifer Nevard, Stephen Russell and Nick Warland.

Against: Nil.

Alternative Motion and COUNCIL DECISION

0323/058

Moved: Councillor Nick Warland**Seconded:** Mayor Greg Milner

That Council:

1. Notes the Officer Report, and in particular, highlights that:
 - (a) “*the advice and information used to prepare the 2020 RAF Business Case documents were reflective of the circumstances at that time*”; and
 - (b) “*the combined impact of a rapid increase in interest rates, capital funding shortfall and delays to the RAF Project since 2020 have contributed to the City’s assessment that RAF Stage 1 is no longer viable*”.
2. Notes:
 - (a) that the original funding proposal from the City to the State Government of \$20 million (**2021 State Government Funding Proposal**) was submitted in October 2021;
 - (b) Councillor Resolution Number 0922/154, Item 12.1 Notice of Motion - Councillor Mary Choy – RAF (**Cr Choy Motion**), appearing at Item 12.1 of the Minutes of the Ordinary Council Meeting dated 27 September 2022; and
 - (c) that the letter received from the Hon David Templeman MLA dated 23 January 2023 in response to the Cr Choy Motion, states “*the State Government has not yet made any final decision on your funding request*”.
3. Requests the Chief Executive Officer write to the Hon David Templeman MLA and to Mr Geoff Baker MLA:
 - (a) to update the State Government on the current status of the RAF Project;
 - (b) to advise that the RAF Project is considered unviable and will not proceed unless the current capital shortfall is addressed; and
 - (c) to call upon the State Government to commit to providing the final \$20 million in capital funding necessary to deliver Stage 1 of the RAF Project, and advise the City of South Perth of the State Government’s decision either prior to (or at the same time that) the 2023/24 State Budget is delivered.
4. Requests the Chief Executive Officer to investigate methods of financing the estimated annual operating deficit of the RAF, to be presented to Council at a workshop to be held not later than 31 May 2023.

Reasons for Change

The impact of escalation and, significantly, interest rates on the financial elements underpinning the RAF have now been quantified, under the sensible parameters that had previously been set by Council.

7.0.1 Recreation and Aquatic Facility

While a capital shortfall continues to exist at this time, there remains two actions left to Council to consider before we make a final decision on the RAF's future, as contemplated by the Officer's Recommendation.

The first of those is to update the State Government on the revised business case and financial situation as it stands and, through the normal State Budget process, request that consideration be given to a State contribution towards the capital funding of RAF Phase One.

The second option is to understand the operational deficit in more detail, so that Council is empowered to have a conversation with our community about what the potential impacts could be. At present, the Officer's Report has identified what the operating deficit would require of Council as a proportion of annual rates revenue.

However, under the parameters previously adopted by Council, there has been no scope to fully explore what other methods of sustaining the operating costs will be and the impact that could have on ratepayers.

In order to make a considered decision on the project's future, we require certainty from the State Government and appreciation of how the operational elements may impact City finances.

The motion was put and declared CARRIED (4/4).

For: Mayor Greg Milner, Councillors Glenn Cridland, Blake D'Souza and Nick Warland.

Against: Councillors André Brender-A-Brandis, Mary Choy, Jennifer Nevard and Stephen Russell.

Casting Vote For: Mayor Greg Milner.

Officer Recommendation

That Council:

1. Notes the outcome of the updated RAF Feasibility Report for the proposed RAF Stage 1.
2. Notes the proposed RAF Stage 1 is not viable within the framework set by Council and the current economic conditions.
3. Notes the proposed RAF Stage 1 has a significant capital funding shortfall.
3. Requests the Chief Executive Officer not to progress delivery of the RAF project.
4. Requests the Chief Executive Officer to inform the State and Federal Governments and other project partners that the RAF project is no longer considered viable without addressing the capital funding shortfall and projected operating costs.
5. Requests the Chief Executive Officer to approach the Federal Government with the aim of retaining the \$5.5 million grant money already received, to be directed into projects within City of South Perth aimed at improving facilities for women's sport.

Background

At the Special Council on 1 November 2022, Council reaffirmed its commitment to the proposed RAF and resolved:

That Council:

- 1) Requests the CEO to:
 - a. develop a masterplan for the Collier Park Golf Course (CPGC) site consistent with the City's Strategic Community Plan (2021-31)
 - b. revise the scope and delivery of the RAF Project so that it can be delivered through three independent and financially viable stages consisting of: Stage 1 – Indoor Aquatics + Recreation, Stage 2 – Indoor Playing Courts + further golf course redevelopment, Stage 3 – Outdoor Pool
 - c. update the RAF Operational and Financial models, including funding strategies to reflect the staged approach
 - d. provide detailed analysis to Council about the financial impact of the proposed Stage 1 on the City's finances and proposed timing of the staged approach
 - e. continue engagement and advocacy with the State Government and other potential funding partners, including potential RAF operators, regarding funding arrangements for all RAF Project stages
 - f. continue to update stakeholders and the South Perth community about the proposed staging of the RAF project
 - g. report to Council on above matters no later than March 2023.

An update was provided at the Electors' General Meeting on 7 February 2023. The presentation noted the key issues and community concerns being considered by the City in relation to the proposed staging of the RAF Project:

- Total project cost and the potential impact on rates
- Risks
- Location
- Impact on the golf course

Each of these have been carefully examined by the City. Previous assumptions about the RAF Operational and Financial models were tested and the location of the RAF on the CPGC was reviewed. Four key issues emerged from the City's investigations:

- Increased pressure on total project costs
- Higher costs of borrowing for the City and the operator impacting negatively on the RAF Operational model and the City's finances
- Potential impact on rates to sustain operational costs and any delays during construction
- Capital funding shortfall

Summary of findings

The Report to the November 2022 Special Council Meeting (SCM) noted the indicative total project cost for RAF Stage 1 was \$45-60 million. As a result of the work undertaken by the City after the November SCM, the estimated total project cost for RAF Stage 1 is \$61.3 million (plus \$890,000 to increase the circulation area of the indoor aquatics in line with previous assumptions). The indicative budget cost estimate for RAF Stage 1 is at **Attachment (a)**.

Given the absence of a design, dynamics of the construction market and the costs associated with any future delays, the City believes the project is unlikely to be delivered for \$62.2 million. For RAF Stage 1, a 5% contingency for both design and construction was allocated by the Quantity Surveyor. To give greater confidence about both the design and construction phases, the City recommends that the contingencies for each be increased to 8%.

The City also recommends that the circulation area of the indoor aquatics be increased to provide an acceptable visitor experience. The QS estimate is also based on a construction start date of May 2024, and given the potential of not achieving this timeline it is appropriate to include a sum for further cost escalation. Given that any level of detailed design is yet to be undertaken, it is the City's best judgement that the total project budget for RAF Stage 1 would need to be between \$70-75 million for the City to responsibly manage risks over the life of the project.

The cost of borrowing as a result of the Reserve Bank increases in interest rates over the past ten months has had a significant impact on the viability of the RAF project. At the time the RAF Business Case documents were presented to Council in 2020, the Western Australian Treasury Corporation (WATC) borrowing rate was 1.8% (fixed term for 20 years). The most recent updates to the RAF Business Case documents were based on a WATC rate of 5.55% which was prior to the latest rise in the base rate and has resulted in the cost of borrowing being three times more expensive than when the previous RAF Business Case was completed. It should also be noted that the current economic uncertainty adds to the risk that interest rates may be even higher when the funds are required in the future.

Another significant impact on the Business Case is the cost of borrowing for the potential RAF Operator. When the initial RAF Business Case was developed in 2020, the cost of borrowing for the Operator was estimated to be around 7%. For the updated RAF Feasibility Report it was assumed to be 12%. In the current environment, this rate could be higher. One of the assumptions of the RAF Financial operating model is that City's borrowing costs would be covered by the return from the RAF Operator, however, it is unlikely that the estimated revenue from RAF Stage 1 will cover both these costs.

Repayment of the City's loan by the RAF Operator also had a significant impact on the RAF Financial model. Combined with the cost of borrowing by the Operator (12%) as well as contribution to the Sinking Fund (around \$1 million per annum), the RAF Operator is unlikely to achieve the financial returns of 7-8% sought. For the Operator to achieve these returns, the City would need to accept and fund a potential operating deficit of around \$1-1.5 million per annum. On the current rate base, this represents between 2.5 and 3.5% of City rates revenue.

RAF Stage 1 assumes a construction date of May 2024. This date was consistent with the previous update of the RAF Business Case in 2021 and aligned with the revised milestones proposed for the Federal Funding Agreement. Should the project encounter any future delays beyond May 2024, the City was advised that for every month of delay, total project costs would increase by an estimated \$300,000 per month.

7.0.1 Recreation and Aquatic Facility

Assuming the total project budget was increased to around \$70-75 million, a shortfall of capital funding exists. Currently, only \$43 million is secured with \$20 million each from the City and the Federal Government together with a potential \$3 million from Curtin University. Further discussions with potential Operators regarding the proposed Stage 1 was undertaken and the willingness to invest up to around \$10 million in capital is unchanged. Any amount higher than this (up to \$15 million), is considered unlikely and would be subject to further due diligence by the Operator, longer lease arrangements and/or more generous terms. Although the State Government has advised that no final decision has been made in relation to the City's funding request of \$20 million, the request is linked to the provision of indoor playing courts at the RAF (Stage 2). It is unlikely that any significant funding would be forthcoming for either RAF Stage 1 or 2 in upcoming State Government budget cycles.

The City does have the option of significantly increasing the City's contribution to address the shortfall. However, given the cost of borrowing and the opportunity cost associated with foregone interest for the use of reserve funds, it is considered a particularly risky strategy and is therefore not considered a viable option, thus leaving very limited alternative financing options for RAF Stage 1.

Further detail on each of these factors is provided in the report. The combined impact of a rapid increase in interest rates, capital funding shortfall and delays to the RAF Project since 2020 have contributed to the City's assessment that RAF Stage 1 is no longer viable. In making this assessment, the City acknowledges that there will be widespread disappointment among the community and significant gaps remain in the community, sporting and recreation infrastructure across the City. Council will need to make future decisions with associated budget provision if these gaps are to be addressed.

The recommendation not to proceed with the RAF project is based on the revised business case for RAF Stage 1. It should be noted that the advice and information used to prepare the 2020 RAF Business Case documents were reflective of the circumstances at that time.

In the interests of full transparency, the documents used to inform the City's recommendation are included as attachments to this Report.

50m Outdoor Pool

Given the strong community response for inclusion of a 50m outdoor pool in Stage 3, part of the City's investigations regarding RAF Stage 1 also involved further analysis about whether a 50m pool was viable in Stage 1. Three options were considered:

- Whether the capital costs associated for a 50m outdoor pool could be accommodated with the \$60 million total project cost without compromising operational viability of RAF Stage 1
- A 50m indoor/outdoor pool which extended the use of the proposed 25m indoor pool with seasonal use
- An indoor only 50m pool

None of these options were considered viable in the context of overall total project cost and operational viability for RAF Stage 1. The capital costs alone for an outdoor 50m pool were estimated at around \$8 million, with a significant negative effect on annual operating costs and revenues. An indoor 50m pool was estimated to be around an extra \$5.3 million in capital costs (as compared to a 25m indoor pool) with an annual operating loss of around \$200,000. After initial investigations, the indoor/outdoor option was not pursued due to uncertainties about construction costs and design, concerns about long term functionality and potential higher heating and maintenance costs.

7.0.1 Recreation and Aquatic Facility

Inclusion of a 50m pool would require extra capital investment of \$5-8 million, in addition to the \$70-75 million total project cost proposed by the City for RAF Stage 1. Additional capital would need to be sought through increasing borrowings and or external sources, with the latter being highly unlikely. The financial and operational viability of RAF Stage 1 would be further compromised as a 50m pool (indoor or outdoor) would increase annual operating losses.

In addition, given the importance of Learn to Swim (LTS) on the operating model (net positive), removal of the LTS pool to accommodate a 50m pool was not considered viable, nor consistent with the intent of the grant funding received by the Federal Government (water safety and female participation in sport).

The City has also considered provision of a stand-alone aquatic facility. While the construction and ongoing operational costs are easier to quantify, it was not considered a viable option in the short or longer term. It is a well established fact that stand-alone swimming pools operated by local governments incur operational losses that require subsidy from City rates revenue. If this option were to be pursued, a suitable site would need to be found and site investigations conducted. Although the City has many parks and open spaces, not all are suitable for construction of an aquatic centre. A Business Case would also need to be developed and other approvals sought leading to further delays and potential increase in costs.

Location

Part (a) of the November 2022 resolution required the City to develop a masterplan for the Collier Park Golf Course (CPGC) site consistent with the City's Strategic Community Plan (2021-31) .

The City acknowledges there is a diversity of views regarding the location of the RAF on CPGC. One of the main objections to the RAF being located on the CPGC site was the potential impact on the golf course and the reconfiguration of the Lakes 9 to a short format course. Concerns were expressed that the overall amenity of CPGC would be diminished by the introduction of a short course and that 'traditional golf' would be compromised. CPGC is one of the few remaining 27 hole golf courses in Western Australia and is a well utilised course. Of note, most golfers who play at CPGC do not live in the City of South Perth. From a survey conducted in September/October 2022, only 21% of CPGC traditional and mini golf patrons lived in the City.

The City noted the concerns raised by the community and commenced investigations to determine the best location of the RAF at CPGC to minimise the impact on the 27 holes. In parallel, the City undertook further analysis of the geotechnical and environmental reports of the Lakes 9 produced as part of the RAF Business Case documents in 2020.

One of the assumptions of the proposed RAF was that it would be built slightly north of the existing clubhouse and would encroach on the existing Lakes 9. The Lakes 9 is a former landfill site of the City. There are several risks associated with building on a contaminated site, namely unforeseen costs and delays as a result of further site investigations and issues arising during construction. The City also has obligations under the *Contaminated Sites Act 2003* (WA). Although an allocation had been made in the RAF project budget for additional works associated with contamination it was not considered sufficient in the current economic climate and tight fiscal environment for the RAF project and also exposed the City to further cost and time risk.

Given the risks associated with building on a former landfill site and the limited options for the City to mitigate these risks, the City decided to pursue the existing driving range as a viable alternative location on the CPGC site.

7.0.1 Recreation and Aquatic Facility

The proposed RAF Stage 1 could be located within the existing driving range and with minimal loss of trees. Future stages of the RAF could also be accommodated without the need to build on the contaminated land parcel.

There were significant benefits to this approach. Disruption to the golf course would be minimised during and post construction and the 27 holes would be retained. The Lakes 9 would not require any redevelopment. In addition, the use of existing land was maximised as the current driving range would be replaced with a technology driving range (with provision for a grass tee-off option).

The proposed layout for each of the RAF Stages can be found at **Attachment (b)** and **Attachment (c)**.

The current decisions of Council direct the City to pursue the review of the RAF project at CPGC. This is also a condition contained within the Federal Funding Agreement. However, the City notes that the community has raised the need to consider alternative locations to CPGC. A review of existing information was undertaken and due to the limited detail in the site analysis for other options, alternative site options could not be pursued within the revised timeframes proposed for the Federal Funding Agreement.

RAF Financial and Operational models

Parts (c) – (d) of the November 2022 resolution required the City to update the RAF Operational and Financial models and provide detailed analysis to Council about whether the proposed Stage 1 was operationally and financial viable and the potential impact on City finances.

The 2020 RAF Business Case documents were developed by Bridge 42 (previously known as NS Projects), in consultation with the City. Bridge 42 and Paatsch Group were engaged to update the RAF Feasibility for RAF Stage 1. No financial analysis was undertaken for the subsequent stages. The full report can be found at **Attachment (d)**.

The Updated RAF Feasibility Report (March 2023) was based on the following assumptions for RAF Stage 1:

- Removal of the 50m outdoor pool
- Removal of Sports House
- Minor reductions in other amenities to reduce overall capital costs
- An increase of 0.5% contribution to the Sinking Fund from 1.5% to 2%
- WATC Treasury rate of 5.55% (2.00% in 2021, 1.8% in 2020)
- Use of air source heat pumps rather than geothermal to manage risks and reduce overall operational costs
- Increase of 'City Rent' from Operator from \$3.080 million to \$3.259 million. This is the minimum return that RAF Stage 1 must achieve.

The City Rent figure represents the revenue from CPGC (including mini golf) and the operating loss associated with GBLC (around \$250, 000 per annum). It does not include the costs incurred by the City for maintenance of CPGC.

7.0.1 Recreation and Aquatic Facility

Funding for RAF Stage 1 was assumed as:

- \$20 million contribution from the Federal Government
- \$20 million contribution from the City of South Perth
 - \$10 million from Reserves
 - \$10 million loan from WATC @ 5.55%
- \$5 million contribution from Curtin University and others
- \$15 million contribution from the Operator
 - Fully financed at 12%

A contribution of \$15 million from the Operator was assumed as the more likely scenario to enable the capital requirements of RAF Stage 1 to be met. Potential operators indicated a willingness to make a capital contribution of up to \$15 million, subject to more generous terms such as increased tenure and further due diligence.

Several scenarios were considered in the Updated RAF Feasibility report. Consistent with previous RAF Business Case documents, low, medium and high attendance scenarios were presented. The medium scenario was assumed as the most likely outcome.

Various loan options were also modelled, for example, the City taking a loan on behalf of the Operator to reduce the costs of borrowing and improve the viability of RAF Stage 1. These scenarios were included so that Council would have a complete understanding about the impact of the cost of borrowing on the RAF Financial and Operational model. The interest rates available to the City from the WATC (5.55%) are considerably lower than investment rate of 12% available for the Operator.

The scenarios can be broadly summarised as:

- Base scenario
 - \$10 million loan repayment at 5.55%, per annum (City)
 - \$15 million loan repayment at 12%, per annum (Operator)
 - 732,699 attendees
- Scenario A
 - Operator contribution of \$10 million at 12%, per annum
- Scenario B
 - Operator contribution of \$15 million at 5.5%, per annum
- Scenario C
 - Operator contribution of \$10 million at 5.5%, per annum
- Scenario D
 - Operator contribution of \$20 million at 5.5%, per annum
 - Assumed that contribution from Curtin University and others did not materialise

Scenarios A-D all assume 732,699 attendees and base repayment of \$840,268 per annum to cover the cost of the City's \$10 million loan. Any repayments associated with the City borrowing on the Operator's behalf are in addition to the base repayment.

7.0.1 Recreation and Aquatic Facility

All costs attributable to RAF Stage 1 were included in the updated RAF Feasibility report. The previous RAF Business Case documents attributed some costs to the RAF Operator, such as netting for the technology based driving range, in addition to the capital contribution. The costs of the nets are estimated to be around \$3 million.

Key findings of Updated RAF Feasibility Study

Operational model

The removal of the 50m outdoor pool did not have a material impact on the overall revenue of RAF Stage 1. Overall revenue from golf increased as the 27 holes were retained due to the reconfiguration of RAF Stage 1 on the driving range. The operating costs associated with RAF Stage 1 were lower than the proposed 2020 RAF model yet these were offset by the increased costs associated with borrowing.

One of the key assumptions of the RAF operational and financial model was that City's cost of borrowing would be covered by the RAF Operator (\$840,268 per annum based on a \$10 million for 20 years at 5.55%). In addition, the RAF Operator is also required to contribute to the Sinking Fund (\$1,040,000). These costs are in addition to the costs of borrowing for Operators which have increased from 7% to 12%. For a loan of \$15 million, payments have increased by \$900,000 per annum.

After these payments, the net operating profit to operator ranges between 3.79% and 5.22% over a ten year period. Through the market sounding exercise conducted as part of the 2020 RAF Business Case development, potential operators advised the City that the target for return was 7-8%. Should RAF Stage 1 proceed, the City would be required to meet this shortfall with annual subsidy of around \$1-1.5 million required. There are limited options available to the City with the most likely scenario an increase in rates. The City estimates that at a minimum, a rates increase of 3% per annum would be required to sustain the operations of the RAF in the early years.

The only scenario whereby the Operator would meet target rate of 7-8% and allow the City to recoup some of its financing requirements (City loan repayment plus contribution to the Sinking Fund) is the High attendance scenario. Given the current economic climate and the potential impact of possible future interest on household budgets, the City does not foresee this as a likely scenario and is unable to recommend to Council to proceed on this basis.

Financial model

Changes to interest rates have had a significant impact on the cashflow and financial model for RAF Stage 1. As the cost of borrowing for the City is considerably less than commercial loans, the City modelled the impact of the City borrowing on behalf of the operator. The proposed approach had a positive impact on the operational performance yet is not without risk.

Scenarios B, C and D pose a much greater financial risk for the City as the loan is much greater than the ten million originally proposed. However, no arrangement with a third party Operator is without risk and the City is ultimately responsible for the overall operational and financial viability of the RAF, irrespective of how the capital contribution is funded.

As with the Operational model, the High attendance scenario shows significant improvements on performance with RAF Stage 1 being able to generate sufficient profit for the City to service its loan repayments. However, it is the City's assessment that the Low or Medium attendance scenario is a more likely outcome. In that event, the expected return for the Operator is not consistently met and the City would need to finance its own repayments for the \$10 million City loan.

7.0.1 Recreation and Aquatic Facility

Another challenge associated with this proposed borrowing by the City on behalf of the Operator is the limits to the City's borrowing capacity. Should the City borrow \$10 million on behalf of the Operator with a total of \$20 million in borrowings, the City would have limited capacity to borrow for other potential future projects.

Costs associated with delay and possible impact on rates

The City has attempted to quantify the possible impact on rates should RAF Stage 1 proceed. To meet the targeted returns by the Operator of 7-8%, it is highly likely that some subsidy from the City rates revenue would be required in the early years of operation, regardless of what attendance scenario was achieved.

The November 2020 decision about the RAF to endorse the RAF project set the parameters for the project. One of the key assumptions for the RAF Project was that it would financially and operationally sustainable with no impact on City rates revenue. To date, this assumption has not changed.

The City also faces further challenges with the costs associated with the impact of any future delay. To ensure accurate comparisons could be made with the 2021 revised RAF scope and to align with the proposed milestones of the Federal Funding Agreement, the construction commencement date remained as May 2024. Although escalation in the WA market has slowed, it remains high. Based on advice from the City's Quantity Surveyor, the City estimates that for every month of delay post May 2024, project costs would increase by 0.4% per month or \$300,000 per month.

Every \$500,000 of operating loss or additional loan repayments equates to approximately 1.25% of the City's current rate base. The City estimates to achieve the required Operator returns for the RAF, an annual subsidy of around \$1-1.5 million may be required, representing a commitment of between 3-4% of the City's rates base, once RAF Stage 1 is operational.

Comment

It is not uncommon for recreation and aquatic facilities operated by local governments across Australia to require ongoing subsidy from rates revenue. Most operate on this basis, and it is part of the social contract between the local government and their community. Projects of a similar scope and scale currently being contemplated by other WA local governments, all forecast operational subsidies of around \$1-1.5 million in the initial stages.

For the RAF project, one of the parameters imposed by Council was no subsidy from City rates revenue. When the RAF Project was endorsed by Council in November 2020, the City had a high level of confidence that this objective would be achieved. The subsequent revisions to the scope in 2021 did not materially impact the RAF Operational and Financial models and the City remained confident that the RAF would not require subsidy from the City rates revenue.

The combined impact of delayed decision making on the RAF Project, escalation in the WA construction market and sustained interest rate rises over the past ten months has severely impacted on the ability of RAF Stage 1 to achieve Council's objectives.

It is unusual for City assets to provide a financial return to the City. Typically infrastructure provided by local government (and the City) is intended to provide a public good and there is no requirement that they 'pay for themselves'. The requirement for the RAF to operate without subsidy from rates, cover the costs of the City's borrowing plus make a contribution to the Sinking Fund and provide a return to the Operator are significant hurdles to overcome.

7.0.1 Recreation and Aquatic Facility

It is important to note that when the RAF was endorsed by Council in November 2020, the economic environment of low interest rates, low inflation and high consumer confidence made such outcomes achievable. In the current economic climate and given almost all the relevant economic factors have changed, it is highly unlikely that this could be achieved.

One of the objectives of local government is to meet the needs of current and future generations. There are significant gaps in community sporting and recreational infrastructure across the City. Previous Council reports about the RAF have documented the long standing community demand and expectation for aquatics and improvements to the broader offering for recreation in South Perth. The proposed RAF offered an integrated facility with a wide range of health, social and economic benefits to the community. Our partnerships with Curtin University and Clontarf Aboriginal College at the RAF were intended to create numerous opportunities for students and our community to improve both health and educational outcomes. The RAF was expected to become a community hub for South Perth and surrounds – a place for all ages, all abilities and all cultures.

In making this recommendation, the City notes that future decisions by Council will be required about community infrastructure in South Perth. Expenditure will be required at CPGC to upgrade the buildings and facilities to ensure future ongoing revenue streams. The purpose and use of GBLC will also need to be carefully considered. The RAF was a key strategy of the City's Strategic Community Plan (2021-2031) and the Public Health Plan (2020-2025) and decisions will need to be made about how the City will meet its obligations under these plans without the RAF.

Federal Grant Funding

The City notes that much of the current community infrastructure (such as toilets and changerooms) that service local playing fields and sporting clubs is ageing and in need of renewal. Of the \$20 million Federal funding grant for the aquatic elements of the proposed RAF, the City has received \$5.5 million. Upon receipt, it was placed in the Reserve and no funds have been spent.

Funding for the aquatic elements of the RAF is part of the Female Facilities and Water Safety Stream Program announced by the Federal Government in 2019. The intended outcomes of the grant program are to increase sporting facilities that provide female change room and amenities, increase participation of girls and women in sport and increase community swimming facilities.

The City is recommending that Council request the CEO to approach the Federal Government to re-direct the money already received (\$5.5 million) towards projects which upgrade the changerooms and facilities at local playing fields that would meet the objectives of the program and provide a tangible benefit to the community. Although there are numerous facilities in the City which would benefit, no detailed work has been undertaken.

Approval would be required from the Federal Government for this approach. The City has not commenced discussions with the Federal Government about this proposal.

Consultation

Community

A presentation of progress to date on the proposed staging of the RAF Project was given to the Annual Electors Meeting (AEM) on 7 February 2023. A copy of the presentation was published alongside the minutes of that meeting on the City's website. Responses to public questions asked at the AEM are published as part of the minutes and available on the City's website.

7.0.1 Recreation and Aquatic Facility

Frequently Asked Questions about the proposed staging of the RAF were also updated on the RAF Project page on the City's website in early 2023.

Elected Members

Confidential briefings were provided to Elected Members on 14, 15 and 20 March 2023.

State Government

The City has continued to lobby the State Government about the provision of indoor playing courts at the RAF. There was provision in the proposed staging on the RAF Project for Stages 1 and 2 to be combined, should funding from the State Government be forthcoming.

In January 2023, the City received advice from Minister Templeman that a final decision on the City's funding request had not been made. The City responded to Minister Templeman's letter in February 2023 outlining the significant unmet demand for indoor playing courts in the Perth Metropolitan Region and reiterating the City's willingness to work with the State Government to achieve this objective. The City's letter was included in the minutes to the 28 February 2023 Ordinary Council Meeting (item 10.1.3) as part of the response to a motion moved by Councillor Choy. To date, a response has not been received.

Federal Government

The City submitted the request to remove the 50m outdoor pool from the scope of the Federal Funding Agreement in September 2022. The request to vary the milestones of the Federal Funding Agreement was submitted in December 2022. Any significant change to the scope of the Funding Agreement requires Ministerial approval. On 23 March 2023, the City received preliminary advice from the Department of Health and Aged Care that the City's request has been accepted. Formal discussions regarding the variation to the Agreement have not commenced.

Policy and Legislative Implications

Should Council accept the Officer Recommendation, the City's Strategic Community Plan (2021-2031) and the Public Health Plan (2020-2025) will need to be amended.

Financial Implications

Should the Officer Recommendation be accepted, the City will undertake further detailed work and present to Council for consideration as part of the upcoming budget.

Key Risks and Considerations

As part of the review of the business case for RAF Stage 1, a high-level review of the risks were undertaken to a level appropriate for the stage of the project (i.e. pre design). The risk considerations were focused on aspects that would fundamentally impact the viability of the project. The City is aware that there are numerous other risks that would normally be dealt with through a detailed design phase of a project.

The considered risks included those that would lead to a lower confidence in the estimated capital costs such as the risks of developing on a former landfill site, limitations of estimating of costs associated with modifying existing infrastructure prior to commencement of design and future costs escalation. The first of these two risks have been minimised by relocating the proposed RAF within the CPGC site. The third risk can not be influenced by the City, but provision has been made for it within the contingency.

7.0.1 Recreation and Aquatic Facility

The other primary risks for consideration at this stage of the project relate to the projected revenue for RAF Stage 1. The base case model is considered the ‘most likely’ outcome however to understand the risks, scenarios were modelled with lower and higher than expected levels of revenue. The full details of the scenarios considered are contained within the updated RAF Feasibility Report and can be found at **Attachment (d)**.

<p>Risk Event Outcome</p>	<p>Financial Loss</p> <p>An adverse monetary impact on the City as a consequence of a risk event occurring. A grading is assigned to different levels of potential loss relative to the significance of the impact on the City's ongoing operations and its ability to deliver expected services</p> <p>Reputational Damage</p> <p>Deals with adverse impact upon the professional reputation and integrity of the City and its representatives whether those persons be appointed or elected to represent the City. The outcome can range from a letter of complaint through to a sustained and co-ordinated representation against the City and or sustained adverse comment in the media.</p>
<p>Risk rating</p>	<p>High</p>
<p>Mitigation and actions</p>	<p>There are two major issues that the City is unable to resolve in relation to RAF Stage 1. The project has a capital shortfall of around \$20 million with little prospect of this funding target being achieved. From an operational perspective, the City is not confident that the operations of the RAF will not require subsidy from rates revenue at some stage and would be unable to achieve one of the key project parameters endorsed by Council.</p> <p>Notwithstanding the proposed increase in contingencies for the project (and subsequent total project cost), the City has limited financial capacity to withstand any unforeseen costs that might arise during the design and construction phases.</p> <p>Acceptance of the Officer Recommendation is likely to result in reputational loss for the City and Council and have a possible future impact on potential future funding decisions by State and Federal Governments.</p>

7.0.1 Recreation and Aquatic Facility

Strategic Implications

This matter relates to the following Strategic Direction identified within Council's [Strategic Community Plan 2021-2031](#):

Strategic Direction: Community
Aspiration: Our diverse community is inclusive, safe, connected and engaged
Outcome: 1.2 Community infrastructure
Strategy: 1.2.3 Plan for and promote the development of recreation and aquatic facilities to service City of South Perth needs

Attachments

- 7.0.1 (a): RAF Stage 1 - Indicative Budget Cost Estimate
- 7.0.1 (b): RAF Stage 1 - Proposed Concept Drawings
- 7.0.1 (c): RAF Stage 1 - Proposed Concept Drawings - all Stages
- 7.0.1 (d): RAF Stage 1 - Updated Feasibility Report

8. CLOSURE

The Presiding Member thanked everyone for their attendance and closed the meeting at 8.04pm.

APPENDIX

PUBLIC QUESTION TIME: 30 March 2023

1. Ms Joanne Ord, Waterford Received: 29 March 2023	Responses provided by: Anita Amprimo – Director Infrastructure Services
<p><i>[Preamble]</i></p> <p><i>These questions pertain to the RAF project costings and expenditure.</i></p>	
<p>1. The RAF Stage 1 Indicative Budget Cost Estimate of \$61m in the Agenda Attachment does not appear to provide the associated limits of accuracy. Can the City advise if there are limits of accuracy applicable to this estimate and if so, what are they?</p>	<p>The associated limits of accuracy are not typically included in an Indicative Budget Cost Estimate for a pre-concept stage estimate. The City understands the risks associated with cost estimates at this stage of a project and as detailed in the report, indicated that a budget of \$70-75 million would be more prudent.</p>
<p>2. The City has been working towards commencement of the proposed RAF project since 2017/18. The annual budgets over this period indicate the City allocated considerable funds towards progression of this project. Can the City provide the total expenditure to date on the RAF project?</p>	<p>The City publishes the Inception to date (ITD) expenditure on the RAF in its monthly financial statements presented to the monthly Ordinary Council Meeting. As at the end of February 2023 ITD expenditure amounted to \$1,593,999 this information is contained at the bottom of the last page of Attachment (d) Operating Revenue and Expenditure, Item 10.4.2 Monthly Financial Statements February 2023. It should be noted that allocated budget does not always result in expenditure.</p>
<p>3. If the City obtains approval to retain the \$5.5m from the Federal Govt, will the City consider using the funds to replace those expended on the RAF to date or are the expended funds considered a regret spend?</p>	<p>No. The City has already expensed these funds as part of previous financial year end processes. The City's preference is for the full amount to be spent on infrastructure projects that offer a tangible benefit to the community. Any expenditure would need to meet parameters set by the Federal Government.</p>

<p>2. Ms Katherine Jafari, Waterford Received: 23 March 2023 (question and response was not read out at the meeting)</p>	<p>Responses provided by: Anita Amprimo – Director Infrastructure Services</p>
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[Preamble]
Consideration for Pickleball Court space

<p>1. Have you considered allowing a designated space for Pickle ball courts? If so, would they be indoor or outdoor?</p>	<p>To date, pickle ball courts have not been part of the planning for the RAF Project.</p>
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DISCLAIMER

The City advises that comments recorded represent the views of the person making them and should not in any way be interpreted as representing the views of Council. The minutes are a confirmation as to the nature of comments made and provide no endorsement of such comments. Most importantly, the comments included as dot points are not purported to be a complete record of all comments made during the course of debate. Persons relying on the minutes are expressly advised that the summary of comments provided in those minutes do not reflect and should not be taken to reflect the view of the Council. The City makes no warranty as to the veracity or accuracy of the individual opinions expressed and recorded therein.

These Minutes were confirmed at the Ordinary Council Meeting on: Tuesday 18 April 2023.

Signed _____

Presiding Member at the meeting at which the Minutes were confirmed