

Edwardstown Memorial Sports and Community Club

Originating Officer	Acting Manager City Property - James O'Hanlon
Corporate Manager	Acting Manager City Property - James O'Hanlon
General Manager	General Manager City Development - Ilia Houridis
Report Reference	GC200211F02

Confidential



Confidential Motion

That pursuant to Section 90(2) 3(b) (i) and (ii) and 3(d) (i) and (ii) of the Local Government Act 1999, the Council orders that all persons present, with the exception of the following persons: Adrian Skull, Tony Lines, Ilia Houridis, Sorana Dinmore, Kate McKenzie, Craig Clarke, James O'Hanlon and Jaimie Thwaites, be excluded from the meeting as the Council receives and considers information relating to Edwardstown Soldiers Memorial Community Club, upon the basis that the Council is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to commercial information, the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party and would on balance be contrary to the public interest.

REPORT OBJECTIVE

To provide Council with findings on the operations of the Edwardstown Soldiers Memorial Community Club during its management of the Edwardstown Soldiers Memorial Recreation Grounds facility. The reports also seeks to provide an update on the transitional management of the facility by Council and proposed next steps.

EXECUTIVE SUMMARY

At GC121019 Council passed a resolution to terminate the agreement between the City of Marion and the Edwardstown Soldiers Memorial Recreation Grounds for the management of the Edwardstown Soldiers Memorial Recreation Grounds due to be found trading insolvent.

A preliminary review was undertaken by Council staff with respect to the financial operations and management of the facility and the subsequent financial position. This work validated concerns regarding the trading position and highlighted concerns regarding the absence of effective governance, conflicts of interest and the absence of adequate financial checks in regards to expenditure.

Council took over the operations of the ESMRG effective 3 February 2020. An interim financial model has been instituted and the progress of licenses for affiliated clubs to provide sustainability for clubs under Council management of the facility.

RECOMMENDATION

That Council:

1. Notes the Report.

2. **Authorises staff to undertake investigations regarding alternate management models for the facility into the future.**
3. **Authorises staff to issue licenses to the 5 affiliated clubs of the ESMRG.**
4. **Note that a further report detailing amended changes to the ESMRG financial model for endorsement and implementation will be provided to General Council on 10 March 2020.**
5. **Seeks an independent financial audit to be undertaken to validate the findings of Council report.**
6. **In accordance with Section 91(7) and (9) of the Local Government Act 1999, orders that this report and attachments, having been considered in confidence under Section 90 (2) and (3)(b) (i) and (ii) and (3)(d) (i) and (ii) of the Act, except when required to effect or comply with Council's resolution(s) regarding this matter, be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the General Council Meeting in December 2020.**

DISCUSSION

The attached report provides a detailed overview by Council staff on the management of the ESMRG by the appointed management body, the ESMCC. The report provides details regarding the background of the ESMCC and information relating to areas of financial management, operational management, governance, behaviours of committee members and a high level analysis of the clubs financial records.

ESMCC

In summary the situation of the clubs insolvency were the result of a range of factors:

- Inability of ESMCC members to distinguish their obligations as Directors of the ESMCC with those held within their affiliated clubs (conflict of interest).
- Adoption of elements of the financial and management models whilst ignoring other elements which resulted in a chain reaction to the sustainability of the model as a whole.
- Lack of sufficient Financial Reporting and Cash Flow Management by the ESMCC.
- Failure of the ESMCC to act on advice provided by the City of Marion staff regarding poor operational practices.
- Assumption by the ESMCC that the City of Marion would continue to provide subsidies until the ESMRG was self sufficient.
- Failure by the ESMCC to put in place adequate checks and balances to prevent payments, in particular dividend payments, being made that would negatively affect the ESMCC's overall trading position.

A further reflection is that through the implementation of the model, despite the responsibility for the financial management being with the ESMCC, there were limited direct controls beyond observation of reporting at board meetings for Council to review and if necessary intervene in the operation of the venue.

Current Operational Arrangements for the ESMCC

Council took over the management of the facility on 3 February 2020.



The Facility Managers employment was transferred over to the City of Marion and agency staff are being used in relation to all community events with clubs continuing to operate under previous conditions in regards to provision of volunteers, security, cleaning, cash management and managing their own club operations.

The ESMRG facility has 2 core community based tenants in place as of February 2020 providing significant income streams. Better than anticipated community use continues, however expenses relating to these require revision and monitoring to ensure best practice and adherence to industry practices.

Stability for the affiliated clubs is required through the review and implementation of the financial model with adequate checks and balances to be put in place to ensure a positive trading position for the facility and sustainability for the clubs along with continued growth in use by the wider community into the future.

As outlined in the attached report, given the conflicts of financial reporting, for example the knowledge that utility and rent has not been paid, yet the financial records provided by the ESMCC indicate that they have, the administration is seeking an independent financial audit to test these discrepancies. The outcomes of that audit, will be brought back to Council.

Attachment

#	Attachment	Type
1	ESMCG Report	PDF File

EDWARDSTOWN MEMORIAL SPORTS AND COMMUNITY CLUB

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1. Introduction

The Edwardstown Soldiers Memorial Recreation Grounds (ESMRG) underwent an \$8.8 million redevelopment completed in April 2019.

The City of Marion engaged the Edwardstown Soldiers Memorial Recreation Club Inc. to run the ESMRG facility on behalf of the City of Marion. On 20 January 2020 Council terminated the agreement due to the Edwardstown Soldiers Memorial Community Club (ESMCC) being found to be trading insolvent and took over management of the site on 3 February 2020.

2. Executive Summary

It has become increasingly apparent that seeking community based committees without broader and majority independent member representation to run multi-faceted community facilities is an increasing risk to the sustainability and good governance of these facilities.

This is due to multiple factors, a number of which have been experienced at the ESMRG and are listed below:

- Absence of effective governance
- Conflict of interests of committee members
- Failure to install effective financial controls to manage spending and ensure dividend payments to clubs did not affect the overall position of the ESMCC
- Demonstrated absence of effective management of the Facility Manager and provision of clear direction
- Absence of effective lines of communication between committee members, staff and affiliates.

Sporting clubs as a whole are showing a tendency to not align themselves with Councils vision of providing wider community opportunities at what is perceived as their facility. Although they seemingly feign alignment to get the project greenlight but having changing attitudes closer to commissioning of the facilities and after causing complex transitional issues.

As proven at ESMRG and at the Cove Sports and Community Club, when tasked with the added responsibility of overseeing a whole community precinct, existing clubs struggle with the competing demands of their Club and the broader Community Club. The requirement to consider the facility and broader needs of the whole community as a primary consideration, beyond the needs of solely their sporting club has resulted in tensions of competing objectives in their role as a Board Member of the Community Club and a Board Member of their Sporting Club. It is evident that at critical times, the focus and bias to their relevant sporting clubs needs were given priority over their primary role and responsibility to the community club in their capacity as a board member.

The building of shared facilities within local and state government arenas is a viable cost effective solution to the upgrade of multiple end of life facilities however alternate management models must be explored such as external management providers and independent run governing boards. Clubs are under increasing pressures from increased operating costs (insurance, peak body affiliation fees), volunteer fatigue, higher expectation from members, a decline in sections of organised sport and the need to show increased governance oversight within their own clubs leaving little opportunity to effectively a multi-faceted facility such as the ESMRG.

2. Analysis

Several factors can be identified as contributing to both the failure of effective governance and financial sustainability within the ESMRG in the operating period as summarised below:

- Inability of ESMCC members to distinguish their obligations as Directors of the ESMCC with those held within their affiliated clubs (conflict of interest).
- Adoption of elements of the financial and management models whilst ignoring other elements which resulted in a chain reaction to the sustainability of the model as a whole.
- Lack of sufficient Financial Reporting and Cash Flow Management by the ESMCC.
- Failure of the ESMCC to act on advice provided by the City of Marion staff regarding poor operational practices.
- Assumption by the ESMCC that the City of Marion would continue to provide subsidies until the ESMRG was self-sufficient.

The proposed model for the ESMRG involved many moving parts and required for the model to be adopted as a whole integrated function, not in parts. The factors detailed above when combined led to certain elements of the model failing which then resulted in a very rapid overall decline in regards to effective governance and financial sustainability.

Purpose and Scope of this Report

The purpose of this report is to provide an analysis on ESMCC's trading position after its 9 months of operations and will cover areas such as:

- Background of ESMCC
- Licences and Sub Licenses
- Council Support
- Financial review
- Governance review
- Changes in dividends modelling
- Liability of committee members
- Conduct and attitude of Committee Members
- Outcomes
- Summary
- Next steps

ESMCC Background

The Edwardstown Soldiers Memorial Club Inc. (ESMCC) is an incorporated body under the Incorporations Act 1985 and managed the ESMRG facility through a head lease agreement with the City of Marion as landlord prior to the 2018/19 redevelopment. The ESMCC held sub leases with 5 affiliated groups as listed below:

- Edwardstown Bowls Club EBC
- Edwardstown Football Club EFC
- Edwardstown Community Hall ECH
- South Coast Cycling Club SCCC
- South Road Cricket Club SRCC

The ESMCC committee at this time largely operated as an administrative committee who managed the outgoings and lease conditions of the precinct and dispersed outgoing costs with the affiliated groups on a user pays system. As each club had their own clubrooms and managed accordingly including utilities metering. The ESMCC were not required to govern or manage day to day operations on any significant level.

Once the redevelopment was announced a new constitution was written and endorsed by the ESMCC in 2017 to align the ESMCC with the greater role it would be undertaking as the head lessee of the redeveloped precinct. A public vote, in line with the new constitution was undertaken at the November 2017 Annual General meeting to attract a skills based committee. The new committee numbered 8 and contained a mix of existing and new members from the affiliated clubs and public. After a few months the number of members reduced to 5 due to resignations or members not being able to fulfil their roles.

This committee, along with representatives from the affiliated clubs began to work with the Project Control Group regarding development of the building design and corresponding management and financial models.

In November 2018 at the Annual General Meeting, all members of the committee resigned their positions with no further nominations being received. In consultation with Council the public officer agreed to stay on until such as time as a new committee could be established enabling the ESMCC to remain an incorporated but non-functioning body. Council terminated the head lease agreement with the ESMCC and installed direct license agreements with the 5 affiliates to enable them to operate on the ESMRG site.

The reasons provided by the committee for their actions revolved around conflicts with Council regarding the community focus of the facility and the project as a whole whereas the committee felt a more commercial approach was required to ensure the financial success and sustainability of the site. This included commercial tenants at commercial rates and reducing revenue generation activities currently on offer to clubs such as BBQ and canteen operations. The ESMCC committee included a registered architect and ongoing disagreements with Council staff around the design remained constant and ongoing often bringing progress to a standstill at points and subsequently the committee questioning their role and function in the redevelopment if directives were not adopted by Council staff.

General Council were kept informed of the developments. It was proposed to hold off reforming a committee immediately. Instead, an option to deliver the project and form a committee closer to commissioning, having an established product to present as opposed to taking a volunteer committee group through a very complex and complicated design and delivery process was instituted.

In December 2018, Council in consultation with the ESMCC's public officer, and in line with the ESMCC constitution sought nominations and hosted a public meeting whereby a new ESMCC committee would be formed. This was undertaken in January 2019 and was well attended with over 70 registered voters. The voting process was run by an independent Justice of the Peace on Councils behalf.

Eight members were elected and were made up of a mix of 3 independent community and 5 affiliate representatives from the sporting clubs. The committee met with Council representatives every fortnight leading up to commissioning of the facility in early April 2019. The group progressed a range of topics from board governance, budgeting, and long term financial planning, strategic plans and proposed operating model.

Licences and Sub Licenses

Council hold a head license with the ESMCC. License(s) to occupy were entered into by the ESMCC with the affiliated clubs. The Edwardstown Community Hall decided to dissolve upon demolition of the hall and the relocation of their major tenant and as a result did not seek a license.

An additional affiliate was sourced with the Meteors Triathlon Club Inc. who had been a hire group at the ESMRG since 1984 and were simply charged for use of the velodrome by the Edwardstown Football Club but sought greater presence and opportunities within the precinct which the redevelopment offered.

A Letter of Offer was provided to the ESMCC in May 2019. The delay in providing this earlier was due to the need to undertake an external evaluation of the market rent for the facility which could only be undertaken upon completion of the build (April 2019). An estimated evaluation was undertaken in 2018 to assist in financial modelling however a confirmed current market figure was required to determine the actual rent in line with Councils leasing and licensing policies.

The ESMCC executed the Letter of Offer in May 2019. On the ESMCC's behalf and in consultation with the ESMCC and the Club, Council drafted sub licenses for ESMCC review, amendment, discussion and distribution to affiliates. These were issued to the ESMCC for distribution in early June 2019. The Cycling and Triathlon Clubs execute their agreements, whilst the remaining affiliates did not execute due to ongoing conflicts of interests. Primarily this reflected the Presidents of the remaining 3 affiliated clubs sitting on the ESMCC committee and using these positions to dispute the terms of the licenses from a committee that they were sitting members of.

Licenses to the affiliates could not be provided to affiliated clubs prior by to the execution of the Letter of Offer from Council (landlord) to the ESMCC. This prevented Council from

having an executed agreement with the affiliated clubs prior to occupation which would have been the preferred scenario. Although all clubs agreed in principle to the terms of affiliates licensing in September 2018 Council could not execute on behalf of the ESMCC whose committee was yet to be formed.

In the period from September 2018 to commissioning of the ESMRG in April 2019 the 3 dominant clubs of Cricket, Football and Bowls (based on number of members) who all had representation on the new ESMCC committee sought major changes to the agreed principles in September 2018. These changes sought greater income from generated revenues and decreased expense obligations for their respective clubs.

Council support

Both prior and post commissioning of the ESMRG facility, Council offered a wide range of support to the ESMCC including but not limited to:

- \$4 million investment of ESMRG redevelopment
- \$70,000 in financial subsidies to the ESMCC for first 3 years of operations
- Full subsidy of Facility Managers salary plus on costs in an ongoing capacity (reviewed annually)
- Preparation of all draft licenses, templates and hire agreements for review and approval by ESMCC
- Provided access to the ESMCC for legal advice both formal and informal as required
- Attended all ESMCC meetings as Council representative and liaison to the ESMCC
- Provided a dedicated staff member to assist ESMCC and affiliated clubs through transitional management as required.

Financial Review

The financial model for the ESMRG as with any financial model required controlled tracking of actual incomes and expenses against projected budgets. This was unfortunately absent from the ESMCC for the period April 2019 to December 2019. At all ESMCC monthly board meetings from June 2019 Council requested to sight as a minimum a Profit and Loss statement and stated the need for other governance related documents such as Chairman and Treasurers reports. These were provided verbally on most occasions. As an example, the November Financial Report from the ESMCC Treasurer was simply provided as a verbal summary: *"we have \$6k in the bank – were screwed"*.

Council staff, having experience with the software being used, were aware that these reports were easy to access as they are automated through the system. This raised concerns that they were not forthcoming during through the ESMCC board meetings.

Facility Manager reports were received at all meetings to varying standards, however no financials were presented other than the audited statements provided as part of the ESMCC AGM. The reports highlighted that the club from 6 April 2019 to 30 June 2019 operated at a \$76,000 surplus.

On review of that report Council staff pointed out that this surplus largely consisted of Councils first year subsidy of \$40,000, the first quarterly subsidy of the Facility Managers Salary and that no expenses such as rent, utilities and other known creditors had been paid and that allocations should be made to ensure funds are available when these fall due to avoid future cash flow issues.

It was also suggested that the Treasurer and Chairman as a minimum should be able to produce these reports in the case of the Facility Managers inability to undertake or unforeseen absence. This was never actioned.

The next set of financial reports to be received was part of Councils resolution GC191210 which included a full Profit and Loss from 1 July 2019 to 23 December 2019. Receipt of this report highlighted an operating deficit of \$66,000.

A combined consolidated report of the 2 periods to 2 February 2020 (refer page 9) has been developed and compares the actuals against the approved operating model budget to highlight the areas of concern, these include:

- **Staffing costs**
 These include the chef's salary of \$43,000 (YTD) and Facility Manager salary \$52,000 (YTD) are shown in the actuals as \$217,000.

If these figures are removed as shared services between clubs and community, it highlights that approximately \$122,000 including staff on-costs was spent against only \$211K of income (lines 3, 5 & 6 and assuming all club functions were manned by volunteers). It has been difficult to validate the failure of the intention to use volunteer staff to offset the salary bill and the potential that some volunteers may have been paid.

The Facility Manager had no financial delegations to pay bills and although concerns regarding staffing levels were raised by Council staff at Committee level on multiple occasions, no action was taken, nor has been evidenced by the ESMCC despite the Treasurer and Chairman having to authorise all payments on a weekly basis and having full oversight over spending and rostering activity.

It has been difficult to validate the failure of the intention to use volunteer staff to offset the salary bill and the potential that some volunteers may have been paid.

- **Food revenues**
 The food revenues for clubs were based on the actual current activity provided by the Bowls and Football club for the 2017 and 2018 operating years. The current actuals are much lower than budgeted (Line 4). The Bowls Club simply stopped using the service and on many occasions simply ordered pizzas or external food. The claim verified by the EBC President was largely a reaction to the Bowls Club not having kitchen facilities duplicated downstairs.

During the modelling period the football club provided details of the consistent provision of 300 meals per week during football season. It was verified that these were meals at a cost of \$13-15 each providing projected income of over \$110,000 however the club only generated \$39,000 for 2019 season. The football club has indicated that this shortfall is due to football food revenues being incorrectly allocated to public sales and teething issues experienced in the kitchen during the first few months of operations.

- Utilities
 The ESMCC was responsible for the payment of all utilities and rent for the ESMRG. Affiliated clubs were to contribute 50% to all outgoings as highlighted in Attachment A, with the ESMCC paying the other 50%.

The ESMCC moved a resolution in September 2019 not to pay Council any monies owing. It must be noted this resolution originated from the Chairman who actually sought a motion to pay all monies owed which was subsequently voted down 5 to 1 against.

- Administrative expenses
 These ran approximately 25% over budget however, savings in areas such as Marketing and Repair and Maintenance easily offset the overspend.
- Dividend Payments
 Payment of dividends were made with no consideration to the ESMCC bottom line and before established creditors were paid.

At the beginning of discussions with the ESMCC, Council's resolution to subsidise the Facility Manager's salary and on costs were discussed. It was made clear that this provision was to ensure the ESMCC never had to have concerns paying the wages and on costs of the Facility Manager. It was stipulated clearly by Council staff that these monies, which would be received quarterly should be placed in a separate account and should only be used for payment of costs associated with the Facility Manager employment. These monies were placed in the ESMCC general fund and used for general expenses based on comments from the Treasurer that; *"receiving those funds propped up the bank account and kept us going for a bit longer"*.

In December, after the termination notice issue was issued, the Treasurer was seeking the January to March subsidy through direct contact with CoM finance as opposed to sending the Unit Manager, Sport and Recreation the invoice for authorisation. Finance picked up on this and alerted Unit Manager who confirmed that no payment is to be made. This action by the ESMCC Treasurer was undertaken without the Chairman's knowledge and the agreed process between ESMCC and Council for processing of these invoices.

ESMCC Consolidated Financial Report

6 April 2019 to 2 February 2020

		BUDGET	ACTUAL
INCOME	Bar Sales (Bowls)	160,000.00	92,829.00
	Bar Sales (Football)	104,000.00	87,251.00
	Bar Sales (public)	45,000.00	126,523.00
	Food Sales (clubs)	140,000.00	47,854.00
	Food Sales (public)	25,000.00	51,613.00
	Site / Venue Hire	73,826.00	33,100.00
	Sponsorship	6,400.00	-
	Affiliates Rent	6,500.00	-
	Affiliates Utilities	13,100.00	-
	Affiliates Security	1,684.00	-
	Affiliates Cleaning	11,700.00	-
	Facility Manager	90,000.00	90,000.00
	Other		12,708.00
TOTAL REVENUE		677,210.00	541,878.00
EXPENSE	COGS (Bar)	123,600.00	131,269.74
	COGS (Food)	82,500.00	48,741.58
TOTAL COST OF GOODS		206,100.00	180,011.32
GROSS PROFIT		471,110.00	361,866.68
	Cleaning	23,400.00	23,029.00
	Waste Disposal	2,970.00	-
	Repairs / Equipment	15,500.00	1,000.00
	Marketing	15,998.00	1,376.00
	Rent (to City of Marion)	13,000.00	7,700.00
	Utilities	26,200.00	28,200.00
	Public Liability Insurance	4,549.00	1,121.31
	Administrative Expense	29,305.00	41,320.00
	Security	3,367.00	2,122.00
	Staff	86,493.00	217,784.97
	Facility Manager	90,000.00	
	TOTAL EXPENSE	310,782.00	323,653.28
TOTAL EXPENSES		160,328.00	38,213.40
CoM Community Subsidy		40,000.00	
PROFIT/(LOSS) Pre Dividends		200,328.00	38,213.40
BAR Dividends to Bowls (50%)		88,000.00	60,000.00
BAR Dividends to Football (50%)		52,000.00	
DIVIDENDS TOTAL		140,000.00	60,000.00
PROFIT/(LOSS) Post Dividends		60,328.00	-21,786.60

Note: The above consolidated comparison table has been provided to enable a comparison of forecasted budgeted and actual figures. A full report of the ESMCC financials as received by Council have been provided in Appendix C.

Upon review of the financials doubts regarding the accuracy of the figures (provided directly from the ESMCC's accounting system) shows irregularities such as stating they have spent \$28,000 in utilities and \$7,000 in rent. These are amounts owed to Council and have not been paid.

In summary failure to reach budgeted club targets for food and beverage sales, payments to clubs without consideration of the cash flow impact, non-receipt of monies owed by affiliated clubs and a severe overspend on wages for the facility culminated in the financial position of the ESMCC in December 2019.

Governance Review

The ESMCC, as an incorporated body, are required to operate with effective governance. However concerns in this area were raised by Council staff to the ESMCC Chairman beginning in July 2019, based on observations of how meetings were being run, lack of documentation and basic governance protocols which were being overlooked.

The lack of governance displayed by some members of the Committee had a direct result in the resignation of 2 independent community members including the first Chairman, and a member who had significant experience in areas of governance but who was continuously outvoted and bullied when seeking to address or discuss gaps within the group's governance.

The biggest concern in relation to governance related to a clause in the ESMCC constitution which read:

4.4. Board members have a duty to consider the Precinct, the community and the interests of all affiliates as a whole, in accordance with the purposes of the Club; Board members do not represent the interests of any particular Affiliate.

Based on the review undertaken by Council, it appears that this clear stipulation was openly ignored with comments made by ESMCC members on different occasions stating:

Member 1

"I'm fully aware Council would like me to take my club hat off; however I sit on this committee first and foremost to protect the interest of my club".

Member 2

"I never wanted to be on the committee – you know that. I'm there to ensure my club is taken care of".

At the 2019 AGM one nomination was received from the Cycling Club to fill one of the two vacant positions on the committee.

At the next meeting when deciding executive positions no members nominated for the available positions of Chair, Vice Chair, Treasurer or Secretary.

Sections of the ESMCC sought to place this situation aside and continue on with the meeting, however the committee was informed by Council staff that these positions must be filled before any other business can be progressed.

A 45 minute conversation was undertaken with the ESMCC members looking to appoint the new member who was attending his first meeting to take on the Chairman's role, with no oversight or understanding of the ESMCC's current position. The member was made to feel very uncomfortable with the situation and declined. Council staff highlighted this as a major concern and reflection of the clubs stance to be on the ESMCC to serve the interests of their affiliate clubs and not the community as a whole, contrary to s4.4 of the ESMCC constitution.

The Facility Manager was provided a written warning in August 2019, however the letter provided which has been sighted by Council staff outlined no specific reasons for the issuing. Upon questioning, the Facility Manager was told the warning was provided due to a welcome speech he provided to the Edwardstown Lions Club who had started using the facility. The Facility Manager welcomed the group to the ESMRG and made a statement outlining that the ESMRG was no longer just a sporting facility but now one for the whole community. This was questioned by Council staff at the next ESMCC meeting whereby a member stated that the Facility Manager should be doing more to take care of the clubs, before the community.

In summary, some ESMCC members operated in line with the constitution and objectives for the ESMRG, however were regularly outvoted or talked down by the dominant members of the ESMCC. It is the view of Council, that bullying and intimidation was used by those who sought to use these positions for the sole purpose of protecting the interests of their respective clubs in direct contrast to the ESMCC constitution and Councils objectives for the ESMRG.

Changes in Dividends modelling

At GC080818 Council endorsed a Business Plan and 10 year financial forecast for the ESMRG facility. The model proposed that any surplus after expenses would be distributed between the affiliated clubs at an agreed rate which if the clubs maintained their current levels of business activity would place the clubs in an equal financial as they currently operate.

The ESMCC at the time (2018) had concerns that if the community generated revenues of the facility which was unknown at the time, produced expedient results then these would automatically be allocated to groups who had no input or responsibility for their generation. As such the ESMCC sought to ensure clubs were only entitled to revenues that clubs were responsible for generating with any surpluses from community activities generated by the ESMCC distributed as the ESMCC saw suitable which, could include distribution to clubs upon approval but could also be invested back into other areas such as provisions for existing or future community programs as highlighted below.

The figure for dividends was derived by establishing the sale price (100%) minus the cost to supply goods (35 - 40%) a 10% share going to the ESMCC.

This revision, ahead of the commencement of the new model in April 2019, was discussed by administration and given that the financial commitments from Council were not changing notification to Elected Members would not be required. These conversations were undertaken with the Manager Land & Property, General Manager City Development and ward Councillor, in his capacity as the Council Liaison Officer for the ESMRG.

Unfortunately the provision of ensuring these payments being made relied on the cash flow impacts to the ESMCC were not clearly identified, nor was the possibility that the community operations would run at a potential loss, as has been identified through excessive wages expenses. With the conflict of interests shown by club presidents on the ESMCC, the dividend payments were demanded regardless of the ESMCC financial position.

A comparison of the changes in the model have been provided below:

Original Model		
REVENUE	Bar Sales (Bowls)	160,000
	Bar Sales (Football)	104,000
	Food Sales (clubs)	140,000
	Bar Sales (public)	45,000
	Food Sales (public)	25,000
	Site / Venue Hire	73,826
	Sponsorship	6,400
	Affiliates Rent	6,500
	Affiliates Utilities	13,100
	Affiliates Security	1,684
	Affiliates Cleaning	11,700
	Facility Manager	90,000
	TOTAL REVENUE	677,210
EXPENSE	COGS Bar Bowls (40%)	64,000
	COGS Bar Football (40%)	41,600
	COGS Bar PUBLIC	18,000
	COGS Food Combined	82,500
	Cleaning	23,400
	Waste Disposal	2,970
	Repairs / Equipment	15,500
	Marketing	15,998
	Rent (to City of Marion)	13,000
	Utilities	26,200
	Public Liability Insurance	4,549
	Administrative Expense	29,305
	Security	3,367
	Staff	86,493
	Facility Manager	90,000
	TOTAL EXPENSE	516,882
SURPLUS		160,328
CoM Subsidy		40,000
TOTAL SURPLUS FOR DISTRIBUTION		200,328

Amended Model		
REVENUE	Bar Sales (Bowls)	160,000
	Bar Sales (Football)	104,000
	Food Sales (clubs)	140,000
	Bar Sales (public)	45,000
	Food Sales (public)	25,000
	Site / Venue Hire	73,826
	Sponsorship	6,400
	Affiliates Rent	6,500
	Affiliates Utilities	13,100
	Affiliates Security	1,684
	Affiliates Cleaning	11,700
	Facility Manager	90,000
	TOTAL REVENUE	677,210
EXPENSE	COGS Bar Bowls (40%)	64,000
	COGS Bar Football (40%)	41,600
	COGS Bar PUBLIC	18,000
	COGS Food Combined	82,500
	Cleaning	23,400
	Waste Disposal	2,970
	Repairs / Equipment	15,500
	Marketing	15,998
	Rent (to City of Marion)	13,000
	Utilities	26,200
	Public Liability Insurance	4,549
	Administrative Expense	29,305
	Security	3,367
	Staff	86,493
	Facility Manager	90,000
	TOTAL EXPENSE	516,882
SURPLUS		160,328
CoM Subsidy		40,000
TOTAL SURPLUS		200,328
Dividends to Bowls (55%)		88,000
Dividends to Football (50%)		52,000
TOTAL DIVIDENDS		140,000
Total PROFIT/ LOSS		60,328

Conduct and attitude of Committee Members

Several Council staff witnessed instances of concerning behaviours from individuals of the ESMCC towards other committee members, staff and also external users of the facility both in public and private scenarios. Clear demonstrated behaviours including intimidation, bullying and disrespect were witnessed including:

- Treasurer berating the Facility Manager in earshot of users of the facility
- Committee member using highly offensive language, calling another member an “F*****g idiot” when a question regarding following correct governance was raised.
- A claim of bullying external to ESMCC meetings being raised by a member and effectively ignored by the committee and being told to pull their head in by the accused member which led to their resignation at the conclusion of the meeting.
- Committee members stating that if Council are asking the ESMCC to implement a strategic plan that Council wrote than they aren’t really allowing the ESMCC to run the facility as an independent committee.
- President of the Bridge Club being told to get lost after announcing they would not be staying at the ESMRG for their meetings. When challenged about the discussion and language used and the perception the facility could garner in the broader community, the individual stated they were acting as President of the Bowls Club not as a committee member of the ESMCC.
- A committee member placing dirty plates on the Facility Managers desk and walking away to highlight the fact that not all dishes were cleared from the Bowls area the night before.

The relationship between the Facility Manager and elements of the ESMCC grew strained over time with claims the FM did not follow instructions or directions provided. When asked what the directions were, the ESMCC either could not specifically detail the instruction or when investigated, the directions given were as a President of an affiliated club, as opposed to their role as an ESMCC committee member. The instructions provided to the President by the FM were that the FM would be happy to undertake with clearance from the Chairman of the ESMCC.

Although the majority of these incidents came from one or two members, their actions were not challenged by the majority of the committee. It must be noted that the chairman of the ESMCC from July was active in trying to control these behaviours however her efforts were in vain with the members dominating all proceedings and dictating meetings at their discretion as opposed to the set agenda.

A substantial portion of ESMCC meetings involved sections of the committee blatantly abusing the Facility Manager in his absence, often with derogatory and disrespectful language. Council staff informed the committee in the first instance this was not respectful behaviour and that given the individual is not here to defend himself, difficult to ascertain the true picture and to focus on either improvements or performance management. Council asked what steps the ESMCC had taken to address their concerns directly with the FM, the response was none.

Council reiterated it could not interfere in this situation as the FM was not a City of Marion employee.

This became a staple for future meetings whereby Council staff stated it could provide details of a HR consultant group who could guide the ESMCC in effectively managing the FM as required. Council reiterated to the ESMCC that if the FM is not performing, he needs to be managed and if required moved on, in the best interests of the ESMRG.

Three HR consultant companies were provided to the ESMCC in September 2019. No action was ever taken, although the FM was constantly blamed for everything wrong at the facility, which continues.

In confidence, the Chairman of the ESMCC contacted Unit Manager Sport & Recreation on Wednesday 27 November 2019, to seek advice citing that the ESMCC was not working as intended with members using their positions as a vehicle to protect the interest of their own clubs before any community considerations are undertaken.

The Chairman cited being constantly outvoted by the sporting clubs on community minded ideas which also included the motion to pay Council monies owed. She stated she would be putting up a motion at the upcoming committee meeting that if the committee cannot resolve the current outstanding actions, then she would seek a resolution to discuss with Council the option of transitional management back to the City of Marion.

Liability of Board Members

Under the Incorporation Act 1985 the ESMCC members will be liable for any outstanding debts to creditors. ESMCC are currently finalising payment of creditors and staff.

Council staff have asked for an update of this process by 10 February 2020 with the City of Marion included as the largest known creditor with debts of approximately \$30,000. Council staff have taken final meter readings on 3 February 2020 to finalise total amounts owed to Council by the ESMCC for utilities which remain outstanding.

Outcomes

The notice of termination as per GC191210 was provided verbally to the ESMCC on 20 January 2020 by Council staff in person, with written notification provided the next day to the ESMCC Chairman. Council assumed management of the ESMRG as of 3 February 2020.

It has been discussed with the ESMCC that Council will purchase existing stock at an agreed price to enable a continuation of trade. A stocktake attended by Council staff and the ESMCC Chairman and Facility Manager was undertaken on the morning of 3 February 2020.

The Facility Managers employment was transferred to the City of Marion effective 3 February 2020. Affiliated clubs, along with all registered user groups have been provided with a notice of the change in management. Posters have also been placed around the facility for casual users of the facility.

Clubs have been informed of their obligations relating to manning relevant club operations with volunteers along with existing protocols including security, communications and cleaning.

As opposed to employing staff, Council has engaged the services of an agency for the provision of hospitality staff on an as required basis. This is consistent with the current approach in place at the Cove Sports & Community Club.

Council has applied for a transfer of the liquor license from ESMCC to the City of Marion and under the Act is able to trade for 1 month from the termination as landlord under the ESMCC license during which time a long term license is being sought.

The Unit Manager Sport & Recreation has attended meetings with Football, Cricket, Triathlon and Cycling committees to answer any questions affiliated club committees have had and provided answers where possible with the overall communication direction that it is business as usual.

2 core tenants have begun occupancy at ESMRG as of 3 February 2020, being HITSA (hospitality training group) and SEDA (flexible learning options school) with agreements in place for rental revenues of \$52,000p.a and \$15,000p.a respectively with no direct costs associated to their usage.

4. Proposed Next Steps

Council, through GC endorsed for Council to run the ESMRG facility for a period of 6 months during which time alternate management models will be explored. These possibly include:

- Engagement of a professional independent board
- Engagement of a professional facilities management provider

The latter is being increasingly adopted for facilities similar to ESMRG with multi-sport and community programs such as the Kauri Parade Community & Sports Centre and Port Pirie Memorial Oval.

To provide financial stability for the clubs in the interim the financial model with additional checks and balances is proposed to be re-implemented along with the issuing of licenses for clubs to continue operations at the ESMRG site. Terms and conditions regarding execution of these licenses should be explored and implemented to ensure the same situation regarding non execution does not reoccur.

With the additional income received from new core tenants, the controlling of staffing levels and expenditure, payments from affiliates for utilities and rent, the existing model is achievable with only minor amendments.

A detailed review of staffing levels to run community events has already been undertaken and implemented. It is proposed that Council would have no obligations regarding any debts or amounts owed incurred prior to 3 February 2020.

Attachment A – Outgoings Allocations for Affiliates

	% split	Rent	% split	Electricity	% split	Water	% split	Gas	%split	Cleaning	% split	Security	Total
Council / ESMCC	50	\$3,850.00	50	\$ 14,100.00	50	\$3,750.00	50	2750	50	\$11,740.00	100	3367	\$39,557.00
Football	21	\$1,617.00	21	\$ 5,922.00	21	\$1,575.00	21	1155	21	\$ 4,930.80	0	0	\$14,044.80
Bowls	22.5	\$1,732.50	22.5	\$ 6,345.00	22.5	\$1,687.50	22.5	1237.5	22.5	\$ 5,283.00	0	0	\$15,048.00
Cycling	2.5	\$ 192.50	2.5	\$ 705.00	2.5	\$ 187.50	2.5	137.5	2.5	\$ 587.00	0	0	\$ 1,672.00
Cricket	2.5	\$ 192.50	2.5	\$ 705.00	2.5	\$ 187.50	2.5	137.5	2.5	\$ 587.00	0	0	\$ 1,672.00
Triathlon	1.5	\$ 115.50	1.5	\$ 423.00	1.5	\$ 112.50	1.5	82.5	1.5	\$ 352.20	0	0	\$ 1,003.20
	100	\$7,700.00	100	\$ 28,200.00	100	\$7,500.00	100	5500	100	\$23,480.00	100	\$3,367.00	\$70,247.00

- Council will replace the position of ESMCC in regards to outgoing obligations.
- ESMCC revenues and use of the facility represented over 50% of total.
- Clubs with dedicated storage areas have their allocations adjusted accordingly.
- Oval lights are metered separately and charged at 100% on a user pays agreement.
- Bowls playing greens are metered individually and charged 100% to Bowls club.

Attachment B: ESMCC P&L 6/4/19 – 3/2/20

Income	A
Recycling Income	\$1,045.02
Sales - Beverages	\$243,577.68
Sales - Beverages Non Alcoholic	\$22,406.93
Sales - Food	\$85,128.48
Sales - Memberships	\$2,340.92
Sales - Room Hire	\$2,590.91
Sales - Edwardstown Bowls Club	\$5,012.03
Sales - City of Marion	\$52,162.59
Facility Manager Subsidy	\$93,287.50
Sales - Edwardstown FC	\$24,106.80
Sales - ESMCC	\$8,819.56
Sales - Edwardstown Rotary Club	\$1,400.27
Total Income	\$541,878.69
Cost Of Sales	
Purchases	
Purchases - Beer	\$52,470.45
Purchases - Coffee/Tea	\$4,008.32
Purchases - Food	\$48,195.84
Purchases - Snack Foods	\$545.74
Purchases - Softdrinks/Juices	\$12,652.85
Purchases - Wine / Spirits	\$61,712.30
Freight In Charges	\$425.82
Total Cost Of Sales	\$180,011.32
Gross Profit	\$361,867.37
Expenses	
Advertising Fees	\$1,376.00
Accounting Fees	\$16,567.50
Amenities	\$447.06
Bank Charges - Merchant Fee	\$2,063.19
	\$7.73
Cleaning	\$23,029.18
Club Disbursements	\$60,077.07
Computer Expenses	\$4,791.96
Contract Labour	\$554.91
Decorations	\$331.95
Gas - Keg Gas	\$733.68
Hire of Plant & Equipment	\$4,553.61
Insurance	\$1,121.31
Internet Expenses	\$916.72
Kitchen Miscellaneous	\$869.24
Laundry Expenses	\$855.50
Licences & Fees	\$619.60
Utilities	\$28,000.00
Minor Plant & Equipment	\$1,005.00
Napkins, Coffee Cups Etc	\$696.74
Office Expenses	\$312.08
Superannuation	\$16,445.09
Wages & Salaries	\$197,671.00
Return to Work Expense	\$3,669.35
Printing & Stationery	\$2,831.10
Rates & Taxes	\$1,140.40
Recruitment	\$280.00
Rent	\$7,700.00
Repairs & Maintenance	\$1,000.00
Security Expenses	\$2,122.55
Subscriptions	\$2,960.28
Telephone Expenses	\$280.32
Total Expenses	\$383,654.12
Operating Profit	(\$21,786.75)
Net Profit / Loss	(\$21,786.75)