

Confidential - Adjourned Item - Edwardstown Memorial Sports and Community Club

Originating Officer	Unit Manager Sport & Recreation Facilities - James O'Hanlon
Corporate Manager	N/A
General Manager	General Manager City Development - Ilia Houridis
Report Reference	SGC200320F01

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, Thuyen Vi-Alternetti, James O'Hanlon, Jaimie Thwaites and Corrine Grant (UHY Haines Norton – Chartered Accountants), 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

This report provides a revised recommendation in relation to the confidential report, Edwardstown Memorial Sports and Community Club, in the context of the adjourned report (GC200310F02).

EXECUTIVE SUMMARY

'Confidential - Edwardstown Memorial Sports and Community Club', GC200310F02 (Attachment 1) was adjourned at the 10 March 2020 General Council meeting. In accordance with the Local Government (Procedures at Meetings) Regulations, the debate on an adjourned item will resume and continue at the point it was adjourned. Council had gone into confidence, however the motion for this item is yet to be Moved or Seconded.

Nobody has spoken to the motion however the following Members have asked a question/s in relation to the item: Mayor Hanna, Cr Crossland (3), Cr Gard, Cr Telfer, Cr Hull, Cr Clancy, Cr Veliskou (2).

RECOMMENDATION

As the motion is yet to be moved or seconded, Council may wish to consider the following alternate recommendation:

That Council:

1. Endorses the budget provided as Attachment 1, Table A to this report.
2. Endorses the financial model to be implemented retroactively to take effect as of 3 February 2020 to 31 July 2020, including:
 - Clubs will be responsible for the provision of volunteers for all club events;

- Where clubs require Council to provide staff for club activities, the direct cost of staff will be deducted, in full, from dividends payments;
 - Eligibility of payments will be on receipt of having fully executed licenses in place;
 - Dividend payments of 50% of gross bar sales generated by the clubs only;
 - No dividends will be offered for revenue generated from food sales or any other source;
 - Proposed dividend payments will begin in May 2020 and occur monthly thereafter to enable Council to undertake an analysis of trading trends within the facility;
 - Council will not provide any payments to club volunteers undertaking duties within the facility.
3. Endorses for the outstanding debts of \$34,677 owed to the City of Marion by the Edwardstown Soldiers Memorial Community Club be cleared in lieu of stocktake to the value of \$36,514 taken on by the City of Marion to enable continuation of trade.
 4. Endorses for an invoice to be raised made out to the Edwardstown Soldiers Memorial Community Club for the amount of \$1,837 to settle all debts between the two parties.
 5. 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.

Attachment

#	Attachment	Type
1	GC200310F02 - Edwardstown Memorial Sports and Community Club	PDF File

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	GC200310F02

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, Victoria Moritz and Corrine Grant (UHY Haines Norton – Chartered Accountants), 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

This report seeks endorsement from Council to implement an interim financial model and provide an update on operations and independent audit of the Edwardstown Soldiers Memorial Recreation Grounds (ESMRG).

The report also seeks Councils authority to finalise the outstanding debts owed to Council payable by the previous management provider the Edwardstown Soldiers Memorial Community Club (ESMCC).

EXECUTIVE SUMMARY

Council commenced management of the ESMRG facility on 3 February 2020 due to governance and financial solvency concerns of the ESMCC. The governance and operational financial model implemented for the facility has been found sound, however it was not correctly implemented or monitored during the ESMCC period of management resulting in their negative financial position.

An interim financial model and budget forecast has been provided in the attached report which enables affiliated clubs financial sustainability based on their ability to generate revenues within the facility from relevant club operations. The proposed budget and model provides the City of Marion with a very low risk for the requirement of any further contributions whilst alternate long term management options for the site are investigated for Edwardstown and other sites in the City of Marion portfolio.



The ESMCC finished trading with a \$34,000 debt to Council for rent and outgoings. In taking over management of the ESMRG facility, operational continuity was essential. Subsequently a stocktake of ESMCC stock was undertaken by Council and ESMCC staff on 3 February 2020 totalling of \$36,000. It is proposed to officially purchase the stock and formalise ESMCC's debt with this transaction and then request an invoice from the ESMCC for the remaining balance.

In the meantime, the ESMRG is achieving its objectives as a community facility, supporting sporting and wider community uses. As previously raised the operational and financial management of the site lacked in multiple areas including effective governance, absence of conflicts of interest and a committee with the suitable skills to deliver Council objectives. The interim model proposed within this report for Council directed management will enable for these areas of concern to be corrected whilst alternate longer term management options are sourced.

RECOMMENDATION

That Council:

1. **Notes the Report.**
2. **Endorses the budget and model as provided in this report to be implemented retroactively to take effect as of 3 February 2020.**
3. **Endorses the outstanding debts of \$34,677 owed to the City of Marion by the Edwardstown Soldiers Memorial Community Club be credited against the stocktake purchase figure of \$36,514 taken on the morning of 3 February 2020 with an invoice request to be raised for payment to the Edwardstown Soldiers Memorial Community Club for the amount of \$1,817.**
4. **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

BACKGROUND

Previous to the redevelopment of the ESMRG, the Edwardstown Bowls and Football clubs operated independently within their own clubrooms which included overseeing all revenues generated within their respective clubrooms including food and beverage delivery. The financial and management model proposed for the redeveloped was for a Community Club Board constituted of independent and representative members facility saw these areas now managed and delivered by the ESMCC.

Clubs would receive a dividend from sales directly generated by their operations. Greater buying power and lower costs for goods were achieved through combining the existing buying volume of the Bowls and Football Clubs with the forecasted additional volumes to be generated by the other three affiliated clubs and anticipated wider community use under one single supplier agreement.



One key element of the model agreed to by affiliated clubs was to provide qualified and vetted club volunteers for their respective bar operations as per their previous independent facilities. Volunteers running the bar operations under the management of the ESMCC enabled the clubs to maintain the same revenues streams and culture that was deemed essential to carry through into the new facility. In the event that paid staff were required due to the inability of clubs to supply volunteers then the cost of the staff supply would be deducted from their dividends figure. This model ensured that clubs would only receive an agreed dividend of 50% of revenues they have directly generated from their club activities not from other clubs or community events generated by the ESMCC. Staffing for community events were managed and delivered by the ESMCC with paid staff. It was envisaged that club volunteers could also be used for community events with a stipend paid to clubs however this never eventuated due to volunteer fatigue experienced by the clubs managing their own club operations.

As the case for most sporting clubs, food delivery is an essential facet of clubs with large membership bases. However most clubs, even those with membership bases of several hundred such as the Edwardstown Football Club (EFC) still do not have the volumes required to employ staff to run specialised operations such as food delivery and as such are commonly contracted out with all revenues going to the contractor and food delivery undertaken at a neutral cost to the club and cited as a service for their members. As with the increased buying power in relation to alcohol, the service requirements when the combined needs of football, bowls, cricket, cycling, triathlon but also the community for various events, a chef could be employed and provide this service with the aim of increased service delivery levels whilst providing the ESMCC with their main source of operating profits along with hire fees for the facility.

This model enabled the Bowls and Football clubs to maintain the same revenues as previous whilst also providing the ESMCC with a small profit from club operations whilst receiving full profits for all other revenues generated within the facility. Clubs such as Cycling, Triathlon and Cricket who did not have the luxury of dedicated clubhouse facilities pre redevelopment and the opportunity of receiving dividends were now offered this opportunity on the provision that they, like football and bowls supplied qualified, registered staff for service delivery.

As highlighted in GC200211F02 the main cause of the ESMCC's inability to remain financially solvent was bought about by:

- Failure of clubs to reach the agreed goals food targets
- Overspend on staff for ESMCC managed community events
- ESMCC paying out dividends to clubs without consideration of the above 2 points impact on the ESMCC's overall financial position and ability to remain solvent
- Failure of affiliated clubs to pay contributions to the ESMCC for outgoings further impacting negatively on the ESMCC's financial position.
- Conflict of Interest of ESMCC committee members

A review of the proposed financial model and performance of the ESMCC from April 2019 to January 2020 was undertaken internally by CoM finance staff with the validity of the model confirmed. An independent review has been commissioned and is nearing completion. This analysis of the ESMCC has been undertaken by UHY Accountants with the preliminary findings supporting the assessments of the Administration.

DISCUSSION

Impact on sporting club operations

It is widely acknowledged that for most Bowls and Football clubs, revenues from bar operations enable sufficient monies to be available to pay their players (football) and pay curation fees for their playing greens (bowls). These figures have been verified through the clubs respective financial statements being \$42k and \$65k respectively for FY2018/2019. Without the income streams from bar revenues these clubs would experience a significant shortfall in their ability to remain solvent.

Proposed Interim Model

The financial operations model recommended to be implemented includes:

- eligibility for payments will be on receipt of fully executed licenses and agreements;
- a standard dividend payment of 50% to clubs for respective club generated bar revenues;
- that the first payments are made to the clubs in May 2020 allowing a 3 month trading period to have been reached and the actual trading trends have been established;
- requirement for Clubs (as previous) to provide 100% of volunteers to be eligible for revenues to be allocated for dividends payments.
- where clubs require Council as the management of the facility to provide staff for club bar operations, the direct cost of staff provided will be deducted from the clubs monthly dividend payment.

Areas of overspend under the previous model, such as staff salaries and non-essential administration costs have been reviewed and relevant changes introduced to bring them into line with industry standards.

Additional revenues now in place such as SEDA and HITSA provide significant additional revenue streams with no direct costs associated to their tenancies. The revenues for these 2 core tenants equal \$15,000 and \$45,000 p.a respectively. As originally planned, HITSA students will be undertaking their practical training hours within the facility during community and club events further decreasing wage expense requirements for the facility.

A significant shortfall in football club food targets had a major impact on the ESMCC's sustainability. This has been discussed with the football club committee who cited frustrations with the start up of the facility and the Facility Manager. Examples included inconsistent pricing and general dissatisfaction of perceived discounted pricing for the club to be the cause. This improved dramatically however, as the season went on with food targets being met in the final 3 months of the 2019 season. It has been noted that the club run canteen operated with significant increases in revenues in 2019 compared to previous years. It is further noted that the football club were supplying food items that duplicated food on offer within the facility with the assumption that the football club encouraged members to purchase from the canteen where the club received 100% of profits as opposed to no profits from the facility kitchen.

A discussion with the club has been undertaken and the proposed license for the football club will restrict duplication of food items in the canteen and also an understanding from the club that promotion, support and utilization of clubs facilities is an essential role for the affiliated clubs. It is noted that the Bowls club as opposed to ordering from the kitchen often bought in pizzas or food from external providers also contributing to the lower than budgeted figures for food. Although this was outlined in the proposed agreements this was enabled by the noted conflict of interest experienced by having the club presidents also sitting on the ESMCC and voting these behaviours to be acceptable.

The ESMCC trading was reviewed and a revised budget has been prepared for implementation for an interim period whilst Council investigate alternate long term management options for the facility.

Immediate changes in areas of staffing levels, standardization of pricing and the control of non-required expenses have been installed to provide a proposed budget as outlined in Attachment A - Table (A).

The use of the ESMRG for wider community activities has widely surpassed the objectives set for the facility. The expenses incurred in delivering these activities were not controlled effectively to provide the required surpluses and contribution to the ESMCC's poor financial position. These areas have now been addressed with continued growth in wider community use being experienced to provide the ESMRG with its main source of profit moving forward along with hire fees for the facility.

Under the proposed model any potential decreased use by the affiliated clubs will only have a minimal impact on the facilities overall trading position. A 50% decrease in food and bar revenues from club use has been highlighted in Attachment A - Table B and show that a positive trading position is still maintained providing a low risk scenario for Council to maintain a sustainable trading position.

Settlements of outstanding debt

Although payments were made to the clubs by the ESMCC without an executed dividends agreement, the ESMCC failed to make any payments to the CoM in relation to rent or utilities. The ESMCC cited failure to pay was due to the absence of an executed agreement in contrast to this theory regarding paying dividends without an agreement in place.

The final amount outstanding to the City of Marion as of the end of trading 3 February 2020 when the agreement between ESMCC and CoM was terminated is \$34,677.

It must also be noted the ESMCC has not received any payments from the affiliated clubs for their contributions which represent 50% of the total amount owed. South Coast Cycling and the Meteors Triathlon Club have signed their letters of offer and agreed to the terms of their license however the Cricket, Football and Bowls clubs refused to sign seeking a better deal.

This situation is one key factor contributing to the ESMCC's cash flow and insolvency result with affiliated clubs owing approximately \$25,000 to the ESMCC for occupation during the period April 2019 to February 2020. It should also be noted that clubs were not charged any costs by Council relating to rent and utilities, excluding oval lights costs during the construction period highlighting that some clubs had not had to contribute to outgoings at the ESMRG for nearly 18 months.

On 3 February 2020 a full stocktake was undertaken in the presence of Council staff, the Chairman of the ESMCC and the Facility Manager which totalled \$36,514 and consisted of food and beverage stock. It is proposed that the stock figure is credited to the outstanding figure owed by the ESMCC with an invoice request to the amount of \$1,837 payable to the ESMCC formalising the account.

It has been reiterated to the affiliated clubs that any monies owed to the clubs by the ESMCC will not be honoured by Council and that these monies should be sourced from the ESMCC during winding up period. The proposed model will only address revenues generated post 3 February 2020.

Conclusion

Councils original objectives for the ESMRG in relation to a multi-function sporting facility with wider community use have largely been met, however the ideal of a club, run by the community, for the community or self-governed has proven unfeasible by factors outlined in GC200211F02. This report further supports those findings including conflict of interests and the lack of established or effective skill sets to monitor operations in regards to governance, financial acumen and provisions of operational equality by the user groups.

The proposed model set out in this report highlights that the original model can be implemented successfully with low risk to Council providing the required resources, skill sets, financial and operational controls, support and impartiality required to meet the objectives first sought by Council for the ESMRG facility until a long term management alternative for the ESMRG is finalised.

Attachment

#	Attachment	Type
1	ESMRG Attachment A	PDF File

**ESMRG Financial Forecast March 2020- February 2021
compared to ESMCC actuals for April 2019 – February 2020**

TABLE (A)	Description	ESMCC (actuals)	CoM (proposed)
INCOME	Bar Sales (Bowls)	\$ 92,829.00	\$ 122,533.00
	Bar Sales (Football)	\$ 87,251.00	\$ 104,000.00
	Bar Sales (public)	\$ 126,523.00	\$ 85,000.00
	Food Sales (clubs)	\$ 47,854.00	\$ 50,000.00
	Food Sales (public)	\$ 51,613.00	\$ 51,613.00
	Site / Venue Hire	\$ 33,100.00	\$ 98,000.00
	Sponsorship	\$ -	\$ -
	Affiliates Rent	\$ -	\$ 3,850.00
	Affiliates Utilities	\$ -	\$ 17,500.00
	Affiliates Security	\$ -	\$ 1,061.00
	Affiliates Cleaning	\$ -	\$ 12,000.00
	Facility Manager	\$ 90,000.00	\$ 90,000.00
	Other	\$ 12,708.00	\$ 12,708.00
TOTAL REVENUE		\$ 541,878.00	\$ 648,265.00
EXPENSE	COGS (Bar)	\$ 131,269.74	\$ 124,613.20
	COGS (Food)	\$ 48,741.58	\$ 50,806.50
TOTAL COST OF SALES		\$ 180,011.32	\$ 175,419.70
GROSS PROFIT		\$ 361,866.68	\$ 472,845.30
	Cleaning	\$ 23,029.00	\$ 24,000.00
	Waste Disposal	\$ -	\$ 2,970.00
	Repairs / Equipment	\$ 1,000.00	\$ 10,000.00
	Marketing	\$ 1,376.00	\$ 1,376.00
	Rent (to City of Marion)	\$ 7,700.00	\$ 7,700.00
	Utilities	\$ 28,200.00	\$ 35,000.00
	Public Liability Insurance	\$ 1,121.31	
	Administrative Expense	\$ 41,320.00	\$ 25,000.00
	Security	\$ 2,122.00	\$ 2,122.00
	Staff	\$ 217,784.97	\$ 127,000.00
	Facility Manager		\$ 90,000.00
	TOTAL EXPENSE	\$ 323,653.28	\$ 325,168.00
TOTAL EXPENSES		\$ 38,213.40	\$ 147,677.30
	CoM Community Subsidy		\$ 20,000.00
PROFIT/(LOSS) Pre Dividends		\$ 38,213.40	\$ 167,677.30
	Dividends to Bowls (50%)	\$ 60,000.00	\$ 61,266.50
	Dividends to Football (50%)		\$ 52,000.00
DIVIDENDS TOTAL		\$ 60,000.00	\$ 113,266.50
PROFIT/(LOSS) Post Dividends		-\$ 21,786.60	\$ 54,410.80

Notes

1. Bar sales have been established using actuals for the 2018/19 Financial Year and adjusted to show a 12 month trading period as opposed to the 10 months ESMCC was in operations for.
2. Bar sales for public have been decreased to highlight a worst case financial scenario for the ESMRG and to account for funds that were incorrectly allocated to this account that should have been allocated to club bar revenues.
3. Food sales for both public and clubs have been forecasted again as a worst case scenario using the actual figures obtained during ESMCC management period.
4. Site / venue hire is represented as the actual figures obtained plus the guaranteed revenues from secured tenancies valued at an additional \$65k p.a
5. Affiliate incomes represent 50% of the totals payable with the City of Marion, as management provider payable for the other 50%.
6. Other income line represent sundry income such as community membership fees & recycling incomes.
7. Cost of Goods (COGS) for food is calculated at 50% whilst drink COGS is calculated at 40%. These are the figures proposed during modelling and were achieved during the ESMCC period of management. Further improvements on this KPI will be sought in an ongoing capacity.
8. A marketing plan has been established which will rely largely on social media platforms and email data base communications. A contingency has been placed for leaflet drops and newspaper advertising.
9. Utilities costs have been increased to show actual forecasted figures. Although original estimates indicated a forecasted cost of \$28,000 p.a this figure will likely be around \$35,000 p.a. City Activation have been asked to review proposed solar rebates and provide options for further energy savings within the facility.
10. Administrative costs have been reviewed with many savings found in the area such as bookkeeping fees, licenses and other costs that now come under the City of Marion contracts or resources with estimated savings in this area of a minimum of \$15K p.a.
11. Staffing levels have been budgeted using actual figures and take into account the period reviewed was for 10 months however, savings such as employing the chef as a contractor as opposed to an employee to monitor hours and establishing strict KPI's for bar and waiting staff during community events will ensure expenses are in line with incomes received from these areas.
12. At GC080818 Council endorsed a \$20K operational subsidy for the second year of ESMRG operations.
13. Dividends are paid to affiliated clubs from bar revenues only directly generated through club operations. If bar revenues from affiliated clubs fall drastically below budgeted figures there is little impact on the overall trading position for the City of Marion as highlighted in the table below but does drastically affect the clubs revenue streams making it vital for them to generate activity within the facility to maintain required revenue streams.
14. The table below shows the unlikely scenario and impact of a 50% drop in revenues from affiliated clubs and highlights rather the need for effective management of wider community use being the key to the financial sustainability of ESMRG operations whilst providing affiliated clubs financial sustainability which is reliant on their ability to maintain business activity and continued provision of an effective volunteer pool. It is noted that such a drop in trade could likely have an effect on others income and expenses lines such as cleaning, waste disposal but would be minor and have not been captured in this scenario.

Scenario of a 50% drop in club related revenues (highlighted in green)

TABLE (B)	Description	CoM (proposed)	50% reduction
INCOME	Bar Sales (Bowls)	\$ 122,533	\$ 61,267
	Bar Sales (Football)	\$ 104,000	\$ 52,000
	Bar Sales (public)	\$ 85,000	\$ 85,000
	Food Sales (clubs)	\$ 50,000	\$ 25,000
	Food Sales (public)	\$ 51,613	\$ 51,613
	Site / Venue Hire	\$ 98,000	\$ 98,000
	Sponsorship	\$ -	\$ -
	Affiliates Rent	\$ 3,850	\$ 3,850
	Affiliates Utilities	\$ 17,500	\$ 17,500
	Affiliates Security	\$ 1,061	\$ 1,061
	Affiliates Cleaning	\$ 12,000	\$ 12,000
	Facility Manager	\$ 90,000	\$ 90,000
	Other	\$ 12,708	\$ 12,708
TOTAL REVENUE		\$ 648,265	\$ 509,999
EXPENSE	COGS (Bar)	\$ 124,613	\$ 79,307
	COGS (Food)	\$ 50,807	\$ 38,307
TOTAL COST OF SALES		\$ 175,420	\$ 117,614
GROSS PROFIT		\$ 472,845	\$ 392,385
	Cleaning	\$ 24,000	\$ 24,000
	Waste Disposal	\$ 2,970	\$ 2,970
	Repairs / Equipment	\$ 10,000	\$ 10,000
	Marketing	\$ 1,376	\$ 1,376
	Rent (to City of Marion)	\$ 7,700	\$ 7,700
	Utilities	\$ 35,000	\$ 35,000
	Public Liability Insurance		
	Administrative Expense	\$ 25,000	\$ 25,000
	Security	\$ 2,122	\$ 2,122
	Staff	\$ 127,000	\$ 127,000
	Facility Manager	\$ 90,000	\$ 90,000
	TOTAL EXPENSE	\$ 325,168	\$ 325,168
TOTAL EXPENSES		\$ 147,677	\$ 67,217
	CoM Community Subsidy	\$ 20,000	\$ 20,001
PROFIT Pre Dividends		\$ 167,677	\$ 87,218
	BAR Dividends to Bowls (50%)	\$ 61,267	\$ 30,633
	BAR Dividends to Football (50%)	\$ 52,000	\$ 26,000
DIVIDENDS TOTAL		\$ 113,267	\$ 56,633
PROFIT Post Dividends		\$ 54,411	\$ 30,585