

Confidential - Rescission Motion - Edwardstown Soldiers Memorial Ground Funding Agreements**Elected Member** Councillor Jason Veliskou**Report Reference:** GC201208M03**Confidential Report****Confidential Motion**

That pursuant to Section 90(2) and (3)(b)(i) and (ii) and (3)(g) of the Local Government Act 1999, the Council orders that all persons present, with the exception of the following persons: Chief Executive Officer, General Manager City Development, General Manager Corporate Services, General Manager City Services, Manager Corporate Governance, Manager City Property, Unit Manager Sport and Recreational Community Facilities, Unit Manager Land & Property, Unit Manager Communications, Unit Manager Governance and Council Support and Governance Officer, be excluded from the meeting as the Council receives and considers information relating to Edwardstown Soldiers Memorial Ground Funding Agreements, 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 proposed funding agreements and a current confidential order is in place over the report, attachments and minutes to which this motion relates.

Motion:

That Council rescind the following motion:

GC201124F04

That Council:

1. Endorse a 100% profit share financial model for the five (5) sports clubs at the Edwardstown Soldiers Memorial Recreation Ground (ESMRG) for the period 1 August 2020 to 30 June 2021.
2. In accordance with Section 91(7) and (9) of the Local Government Act 1999, orders that this report the attachments and any minutes arising from this report having been considered in confidence under Section 90 (2) and (3)(b) (i) an (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.

That this motion is replaced with:

1. Endorses the extension of the current financial model and funding (dividend) agreements with the five (5) sports clubs at the Edwardstown Soldiers Memorial Recreation Ground (ESMRG) for the period 1 August 2020 to 30 June 2021.
2. In accordance with Section 91(7) and (9) of the Local Government Act 1999, orders that this report the attachments and any minutes arising from this report having been considered in confidence under Section 90 (2) and (3)(b) (i) an (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 2021.

Supporting Information:

Nil.

Response Received From: Unit Manager Sport and Recreational Community Facilities - Mark Hubbard

Corporate Manager Manager City Property - Thuyen Vi-Alternetti

General Manager General Manager City Development - Ilia Houridis

Staff Comments:

At the General Council meeting held 24 November 2020, the following resolution was passed:

That Council:

1. ***Endorse a 100% profit share financial model for the five (5) sports clubs at the Edwardstown Soldiers Memorial Recreation Ground (ESMRG) for the period 1 August 2020 to 30 June 2021.***

As the definition of "profit" was not defined, nor the model for allocation of profit, Administration have developed an approach for how the 24 November 2020 resolution could be applied. Attachment 1 outlines the four approaches in detail:

1. The current Dividend Model (50% of Gross Beverage Sales)
2. A 100% Profit Model inclusive of all revenue and cost
3. A Profit Model that is adjusted for existing Council Policies
4. An Alternate Model that strives to achieve a balanced result for Clubs and Council based on the original intent of facilities financial model (from the 2017 ESMRG Business Plan) as well as recent feedback from Councillors.

It should be noted that Administration continues to develop the longer term approach for the ESMRG, Cove and Mitchell Park facilities. This work will likely be discussed at the Elected Member planning day and may result in future changes to distribution models to the clubs.

In considering the above proposed rescission motion, Administration also provide a chronology of the decisions and dealings around dividend and revenue/profit distribution modelling at the Edwardstown Clubs (refer to Attachment 2).

Rationale and Principles of the ESMRG and Management Model:

- In considering a financial and management model, Council had assessed that the Edwardstown Bowling Club (EBC) and Edwardstown Football Club (EFC) would see reduced income by moving to the new ESMRG facility due to the loss of food and beverage sales, leaving the clubs with an annual forecast deficit of around \$35,000 each.
- The proposed model that was implemented considered several factors including the clubs existing usage of the facility and the implementation of a model which would sustain the clubs with an equal financial position.



- This was structured as a first year model, a transition year and in the second year of operations, where clubs had transitioned to the new facility, a revised model based on the club's overall contribution to the EMSRF facility was introduced. The new dividend model included the club's contribution to income lines, volunteer contributions to the facility (non-club events), in kind support and donations to the ESMRG and contributions to bookings undertaken at the facility.
- The dividend model distribution was further refined in date, maintaining the principles outlined above, however with a change to the calculation of the dividend.
- The goal of the model has been for the clubs to not only be invested and contribute to the facility in relation to utilisation, but also allows clubs to attain long term sustainability through additional income stream opportunities afforded to them.

Further consideration should also be given to the following:

- The initial business model developed by Council in 2017 aimed to demonstrate the Clubs would be no worse off financially from the loss of food and beverage sales by relocating from their old clubrooms to the new ESMRG multi-purpose facility.
- On 3 February 2020, Council took over management of the ESMRG and endorsed the current dividend model where the Clubs receive 50% of gross bar sales when volunteers are provided. This model extended the "no-worse off" principle and continued to incentivise Clubs to increase facility utilisation and revenues.
- The Edwardstown Soldiers Memorial facility is a multi use facility, the clubs all have individual licenses with Council that stipulate times of use for the different rooms. Council as the facility manager is responsible for overseeing these licensees along with managing other community hirers, events and private functions for times that are not allocated to the Clubs and the overall operations of the facility.
- Council endorsed a lease and license policy in 2017, this policy provides direction in terms of agreements, determination of annual fee payable and maintenance responsibilities between Council and the licensee/lessee.
- This rescission motion on notice allows the current dividend model arrangements to continue at the facility as an interim arrangement, enabling the Clubs to operate under the current agreement.
- The clubs have based their budgets on the current dividend agreement, any changes to the model may lead to cash flow and viability challenges for the clubs in an already challenging year with the many interruptions to their sports program with COVID19.
- Consideration needs to be given to Council's reputational risks should any changes be made to the current funding agreement without any discussion and or consultation with the respective clubs.
- Any changes to the model may also result in the Club's losing the incentive to support the facilities food and beverage operations, resulting in potential reduced revenue and increased wage costs for the facility.
- Council is currently considering and working through broader management model options for our multi-sport facilities. Included with this work is revenue returns for these sites.

ATTACHMENTS:

#	Attachment	Type
1	ESMRG Distribution Models	PDF File
2	ESMRG Dividend Chronology	PDF File

DISTRIBUTION MODELS - EDWARDSTOWN SOLDIERS MEMORIAL RECREATION GROUND (ESMRG)

At the General Council meeting held 24 November 2020, the following resolution was passed:

That Council:

- 1. Endorse a 100% profit share financial model for the five (5) sports clubs at the Edwardstown Soldiers Memorial Recreation Ground (ESMRG) for the period 1 August 2020 to 30 June 2021.**

As the definition of “profit” was not defined, it has been requested that staff provide an interpretation of how the resolution could be applied. The following table provides a comparison of the current Model (50% Gross Beverage Sales) with two interpretations of a 100% Profit Model and an Alternate Model that strives to achieve a balanced result for Clubs and Council based on the original intent of the facilities financial model (from the 2017 ESMRG Business Plan) as well as a significant amount of recent feedback from Councillors.

			<u>Model 1</u>	<u>Model 2</u>	<u>Model 3</u>	<u>Model 4</u>
	Notes	ESMRG	<u>Current Model</u> 50% Gross Beverage Sales	<u>Full Model</u> Total Sales less Total Costs	<u>100% Profit</u> Total Sales less COGS less F&B Staff	<u>Alternate Model</u>
Income	1	Club Beverages	\$252,719	\$252,719	\$252,719	\$252,719
	2	Club Food		\$53,636	\$53,636	\$53,636
	3	Community Beverages		\$89,934	\$89,934	
	4	Community Food		\$63,205	\$63,205	
	5	Hire Agreements		\$45,800	\$45,800	
	6	Ad Hoc Room Hire		\$3,350	\$3,350	
	7	The Edwardstown Club Memberships		\$2,875	\$2,875	
	8	Rent - Clubs		\$3,850	\$3,850	
	9	Utility Reimbursements - Clubs		\$37,750	\$37,750	
	10	Facility Manage Subsidy		\$110,000	\$110,000	
		Total		\$663,121	\$663,121	\$306,355
Expense	11	Facility Manager		\$61,773		\$30,887
	12	Facility Coordinator		\$83,522		
	13	F&B Staff		\$82,711	\$82,711	\$22,000
	14	COGS Club Sales		\$122,542		\$122,542
	15	COGS (Other)		\$61,255	\$82,710	
	16	Utilities		\$75,500		
	17	Cleaning		\$23,480		\$11,740

	18	Security		\$5,000		\$2,500
	19	Waste		\$4,000		\$2,000
	20	Administration & Maintenance		\$27,000		
		Total		\$546,784	\$165,421	\$191,669
	21	Return to Club/Dividend	\$126,360	\$116,337	\$497,700	\$114,686
	22	OVERALL FACILITY SURPLUS/(DEFICIT)	(\$10,025)	\$0	(\$381,363)	\$1,651

<u>Note</u>	<u>Description</u>
1	All beverage sales generated from Club activity, events and functions
2	All food sales generated from Club activity, events and functions
3	All beverage sales generated from activities generated outside of Club activity
4	All food sales generated from activities generated outside of Club activity
5	Hire agreements including Hitsa and SEDA
6	Other venue hire
7	Income generated from membership sales for the venue
8	Discounted rent (as per Council Lease and Licencing Policy) received from Clubs based at the facility
9	Utilities reimbursement (as per Councils Policy) including Gas, Water and Electricity
10	The annual allocation in Council Long Term Financial Plan (LTFP) to support the facility operations
11	Allocation for the Facility Manager (0.25FTE) in Model 4 <ul style="list-style-type: none"> - (0.5FTE) Models 1, 2, 3 – 50% allocation of wage across ESMRG and The Cove Sports & Community Club - (0.25FTE) Model 4 – 50% of the (0.5FTE) allocation as a cost calculation for the revenue return calculation
12	Facility Coordinator wage
13	Includes the wages for bar and catering staff that may service both Club and Community activity
14	COGS based on 40% Club food and beverage sales
15	COGS based on 40% Community food and beverage sales
16	Gas, Water and Electricity costs (excludes lawn bowls specific water meter)
17	100% venue cleaning costs for Models 1, 2, 3 & 50% allocation for Model 4
18	100% venue cleaning costs for Models 1, 2, 3 & 50% allocation for Model 4
19	100% venue cleaning costs for Models 1, 2, 3 & 50% allocation for Model 4
20	Includes insurances, bank fees, office supplies, marketing and maintenance
21	The calculated revenue return to the Clubs
22	The overall facility surplus/deficit to Council from facility operations once a revenue return/dividend has been included as an expense

***It is important to note that the Models are a calculation to determine a possible revenue return to Clubs, and do not reflect the amounts Clubs receive or pay from and to Council.**

***The baseline projection from all income and expenses for the ESMRG without any Revenue Return/Dividend to Clubs is a surplus of \$116,337, which includes the \$110,000 subsidy contribution by Council for the Facility Manager.**

*** All new modelling requires further financial testing and consideration of practical implementation systems**

Revenue Return Model Summary

Please see a table below that provides a brief explanation of how each revenue return model works and its respective positives and challenges.

<u>Model 1 - Current Model</u>	<u>Positives</u>	<u>Challenges</u>
Clubs receive 50% of all beverage sales generated from Club activity where they supply volunteers	<ul style="list-style-type: none"> - Has been operating for a number of months and is working well - Incentivises Clubs to utilise venue and supply volunteers - Provides a good return to Clubs - Council investment is close to the LTFP allocation 	<ul style="list-style-type: none"> - May result in a greater revenue return than forecast, which may increase the deficit to Council - Lacks any incentive for Clubs to manage stock control - Can be perceived to encourage drinking alcohol
<u>Model 2 - Full Operations</u>	<u>Positives</u>	<u>Challenges</u>
Clubs receive a proportionate return from the full surplus generated from all venue income less all venue expenditure	<ul style="list-style-type: none"> - Incentivises Clubs to utilise the venue, increase food and beverage sale and supply volunteers - Provides a good return to Clubs - Clubs may take a greater interest in venue operations and cost controls - Council investment is equivalent to the LTFP allocation - Can be a simple method to implement 	<ul style="list-style-type: none"> - Clubs may become interested in the detailed operational costs of the facility and critical of facility revenues and costs where they consider it impacts the potential surplus - May be difficult to ensure that Clubs use volunteers, which may lead to inter-club conflict - May be difficult to ensure the proportionate return is not just based on sales, but also supply of volunteers
<u>Model 3 - 100% Profit</u>	<u>Positives</u>	<u>Challenges</u>
Total Venue Income less COGS and F&B Staff	<ul style="list-style-type: none"> - Projections indicate a significant return to Clubs - Incentivises Clubs to utilise the venue, increase food and beverage sale and supply volunteers 	<ul style="list-style-type: none"> - Highly excessive return to Clubs - Significant cost to Council - Would be viewed by other Clubs at other Council venues as disproportionate support for the ESMRG Clubs, and may lead to requests for similar support
<u>Model 4 - Alternate Model</u>	<u>Positives</u>	<u>Challenges</u>
Clubs receive a return from the net amount of Club Food and Beverage sales less Club COGS, 25% Facility Manage Wage, F&B	<ul style="list-style-type: none"> - Incentivises Clubs to utilise the venue, increase food and beverage sale and supply volunteers - Provides a good return to Clubs 	<ul style="list-style-type: none"> - Ensuring COGS can be calculated accurately for both food and beverage

Staff, and 50% Cleaning, Waste and Security Costs	<ul style="list-style-type: none">- Considers COGS promoting Clubs to take more care with stock control- Recognises the Facility Manager contributes support on a 50/50 basis for Clubs and Community- Considers 50% costs for cleaning, waste and security akin to the original 2017 financial model- Council investment is equivalent to the LTFP allocation- Can be a simple method to implement	
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CHRONOLOGY - EDWARDSTOWN SOLDIERS MEMORIAL RECREATION GROUND DIVIDEND MODEL

The following table provides summaries reports, plans and minutes relating to the application of a Dividend model for the Clubs at the Edwardstown Soldiers Memorial Recreation Ground (ESMRG).

February 2016	<p>Section 48 Prudential Report Identified the following:</p> <ul style="list-style-type: none"> • The EBC and EFC operated their own facilities and generated income to reinvest back into their Clubs. • The model for the EMSRG was to allow the Clubs to provide volunteers to support food and beverage operations and in return receive a distribution of funds on a proportionate basis.
August 2017	<p>Council Resolution GC80817F02</p> <ul style="list-style-type: none"> • Council Report: Edwardstown Oval Redevelopment – Financial and Management Model and the attached Business Plan for Edwardstown Soldiers Memorial Recreation Ground • The Business plan identified that the EBC and EFC will experience reduced income by moving to a new EMSRG facility due to the loss of food and beverage sales, leaving the Clubs with an annual forecast deficit of around \$35,000 each. • The rationale behind the first year of implementation was determined by several factors including the clubs existing usage of the facility & its operating deficit as a result of the new management model which would place the Clubs in an equal financial position as per pre implementation of the new management model. • In the second year of operations, whereby clubs had transitioned to the new facility, a revised model which was based on the club's overall contribution to the EMSRG facility will be introduced. The new dividend model will be based on factors including club's contribution to income lines, volunteer contributions to the facility (non-club events), in kind support / donations to the EMSRG and contributions to bookings undertaken at the site. • The model requires the clubs to not only be invested and contribute to the facility in relation to utilisation, but also allows clubs to attain long-term sustainability through the additional income stream opportunities afforded to them. • <i>Details on the Year 1 and Year 2 financial models from the 2017 Edwardstown Soldiers' Memorial Recreation Ground Business Plan can be found below this table.</i>
8 August 2017	<p>Edwardstown Oval Redevelopment – Financial and Management Model Report Reference: GC080817F02</p> <ul style="list-style-type: none"> • Endorsed the Business Plan and Funding Model. • Endorsed a contribution of \$90,000 per annum in the Long-Term Financial Plan towards the employment of a Facility Manager.
April 2019	Launch – EMSRG building opened
May 2019	<ul style="list-style-type: none"> • Staff identified that the Year 1 model was not working as intended and a revised model was raised. Indications are that a version of the proposed Year 2 Dividend model was then introduced.
11 February 2020	<p>Council Resolution GC200211F02</p> <ul style="list-style-type: none"> • Council took over management of the facility due to issues with the Community Board. • Staff authorised to issue licences to the five Affiliate Clubs.

	<ul style="list-style-type: none"> A further report detailing amended changes to the ESMRG financial model was to be provided to General Council on 10 March 2020.
20 March 2020	Council Resolution SGC200320F01 <ul style="list-style-type: none"> The 50% gross bar sales dividend model adopted to retrospectively take effect as of 3 February 2020 to 31 July 2020.
27 April 2020	Council Resolution SGC200427F05 <ul style="list-style-type: none"> Council requested Administration seek external interest in management of ESMRG.
23 July 2020	<ul style="list-style-type: none"> Administration met with Edwardstown Bowls Club and Edwardstown Football Club to discuss retrospective dividend payments.
August 2020	<ul style="list-style-type: none"> The July 2020 dividend invoices from the Bowling Club and Football Club were received.
8 September 2020	Council Resolution SGC200427F05 <ul style="list-style-type: none"> Staff presented to Council on the outcomes of the ESMRG RFP process.
September 2020	<ul style="list-style-type: none"> The August 2020 dividend invoices were received from the Clubs.
October 2020	<ul style="list-style-type: none"> Clubs send dividend invoices which are put on hold. Held meetings with Clubs to discuss the need to present a report to Council on the future of the dividend model post August 2020.
24 November 2020	<ul style="list-style-type: none"> Clubs sent Council dividend invoices, which continue to be placed on hold. ESMRG Dividend Model Report tabled to Council.
Next Milestones	
8 December 2020	Council Resolution GC201208M03 <ul style="list-style-type: none"> ESMRG Club Dividend Model Rescission notice to be considered.
December 2020 - January 2021	<ul style="list-style-type: none"> Staff continue to work through management modelling (and revenue return) options for EM consideration.
30 January 2021	<ul style="list-style-type: none"> Elected Members Planning Day – Discussion on Multi-Purpose Sport Facility management model.
February 2021 - June 2021	<ul style="list-style-type: none"> Further detailed work on management modelling (and revenue return option/s) following Planning Day feedback. EM Forums and Council Meetings to consider and agree on management model (and revenue return systems).
June 2021	<ul style="list-style-type: none"> ESMRG funding agreements include an annual June review period.

2017 ESMRG Management & Financial Plan

Below is a summary of information from the 2017 Business Plan outlining the financial return models in Years 1 & 2 for the Clubs. *For more detail please refer to Pages 49-56 in the 2017 Edwardstown Soldier's Memorial Sports Ground Business Plan.*

The model at Edwardstown has been a Dividend Model with changes in the distribution approach for each year.

Dividend Model - Year 1 (April 2019)

The 1st Year model was established to ensure no disadvantage to the EBC and EFC, to allow them to operate in the same financial position as prior to the new management model implementation. Indications are that this model was not implemented for any payment, but instead a version of the Year 2 transition model was implemented post May 2019.

Amount available for Distribution		\$100,052
EMSCC	10%	\$10,005
Football*	42%	\$42,022
Bowls*	45%	\$45,023
Cycling	1.5%	\$1,501
Cricket	1.5%	\$1,501
Total Allocation	100%	\$100,052

Net surplus/deficit position after new management model

Football P/L -\$35,501

Bowls Club -\$34,486

This outlines the Clubs net deficit position with the removal of food and beverage sales from their previous facility operations before moving to the new facility.

Net surplus/(deficit) position after distribution of surplus

Football Club \$6,521

Bowls Club \$10,537

This shows the net position of the Clubs after providing the 1st Year Distribution amount

2015/16 EOFY Actual Position

Football Club \$5,151

Bowls Club \$10,239

This shows that the 1st Year Club financial position in the new facility is similar to the Clubs previous EOFY results in the Clubs own separate facilities

Dividend Model – Year 2 (April 2019 to 3 February 2020)

The Year 1 Model was meant to transition to a new Club Dividend Model in Year 2; however there are indications that a version of the Year 2 model (shown in the table below) was introduced earlier after it was recognised in May 2019 that the Year 1 Model was not working as intended. The Year 2 model was based on a Net Sales figure of Total Club Sales Less Cost of Goods and Staff, which was returned to the Clubs on a quarterly basis. The value of any volunteers and any Club specific hire or donations was reimbursed as an addition to the net sales figure.

Dividend	%	F&B Sales	Volunteer Hrs	Donations	Hire	Total
EMSCC	10%	\$6,199				\$6,198
EFC	45%	\$27,894	\$5,720	\$400		\$34,013
EBC	40%	\$24,794	\$88		\$4,975	\$29,857
SCC	3%	\$1,860	\$308	\$2,500		\$4,667
SRC	2%	\$1,240	\$704	\$74		\$2,018

“Existing clubs such as the EBC & EFC utilise their respective facilities as an essential service to their members in regard to food and drink service, which forms an essential part of the respective club’s culture, history and social benefits of being a member of these clubs. This is to continue as normal in the new facility with their existing volunteers continuing to serve behind the bar as volunteers during these periods”. ESMRG 2017 Business Plan Page 4

Dividend Model – Version 3 (3 February 2020 to 31 July 2020)

In March 2020 at the Council Meeting (**SGC200320F01**) Council resolved to apply a 50% gross bar sales dividend model to retrospectively take effect as of 3 February 2020 to 31 July 2020.