

Bay Pavilions Financial Performance Review

Final Report

27 June 2023

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01

Executive Summary

Review Objectives and Approach

Review background:

- KPMG has been engaged by Eurobodalla Shire Council (ESC or Council) as its professional adviser to conduct a factual review of financial performance and key revenue and cost drivers of the Bay Pavilions Arts + Aquatic Centre (Bay Pavilions or the facility).
- Bay Pavilions is a multi-use facility located in Batemans Bay, New South Wales. It consists of two core attractions – the Arts Pavilion and the Aquatic Pavilion. The Arts Pavilion includes a theatre, bar, gallery and studios whilst the Aquatic Pavilion is home to a 25m lap pool, warm water pool, gym, water slides and splash park.
- Construction of the facility began in September 2020, and the opened in June 2022. The project was funded in conjunction with the NSW Government through the Regional Communities Development Fund and the Regional Cultural Fund; and the Australian Government through the Regional Growth Fund. Management of the facility is outsourced to Aligned Leisure, a subsidiary company of the Richmond Football Club, established to manage the club's health, fitness and leisure business activities.

Review objectives:

- The facility's financial performance in the first nine months of operation has been weaker than what was anticipated in the original business case, and this review sought to identify the reasons for the variance and implications for the facility's future financial sustainability. The scope of this review did not include a review of the original business case, but its outputs and assumptions for comparison purposes.
- In order to enable a robust evaluation of the financial sustainability of the facility, Council sought to understand:
 - The drivers for the current variation in operating revenue and costs compared to the original business case
 - The implications of these revenue and cost variations for the facility's ongoing performance and the Council's funding commitments

Review approach:

The approach to the review consisted of three main elements:

1. Desktop information analysis

- An information request was issued, and Council provided approximately 200 documents in response to this information request. Interviews were held with Council-nominated stakeholders, including the Aligned Leisure representatives.
- The documents were examined to understand how the business case and financial model for the operation of the facility had been developed and iterated prior to the facility opening and to establish the extent of the information provided to the Council, and its Audit, Risk and Improvement Committee.
- An overview of the Bay Pavilions' timeline and iterations of the business case and financial models is presented in **Section 2** of this report.

2. Variance analysis

- Operating revenue and expenses for the nine months of operation from 1 July 2022 to 31 March 2023 were compared to financial forecasts in order to identify key variances. The baseline financial model forecasts have been prorated for 9 months to allow for meaningful comparison.
- Key financial and performance metrics were calculated to identify the implications for the facility's ongoing performance and the Council's funding commitments.
- Variance analysis findings are presented in **Section 3** of this report.

3. Revenue and cost driver analysis

- Cost information was examined in order to identify the key cost drivers, including factors such as utilities, staffing levels, maintenance, and management costs.
- Cost driver analysis findings are presented in **Section 4** of this report.

Any reference to 'review' throughout this report has not been used in the context of a review engagement in accordance with review standards issued by the Australian Auditing and Assurance Standards Board.

Summary of Key Findings (1/2)

1. **Bay Pavilions' operating loss for the 9 months to 31 March 2023 was \$1.2M per reconstructed actual financial results from Council compared to a baseline financial model forecast loss of \$563k¹. Financial performance is weaker than anticipated due to revenue targets not being met, and higher than forecast expenditure in the first 9 months of operations.**
 - a) Revenue was \$221k or 8% below forecast, driven by 12% lower patronage.
 - b) Operating expenses were \$454k or 13% above forecast, driven by increased utility and cleaning costs, but partially offset by expense savings in repairs and maintenance and marketing and advertising.
 - c) Depreciation was \$418k or 29% above a forecast provided to Office of Local Government (OLG) in 2020². It was noted that depreciation was not included at all in the baseline financial model used as a baseline for variance analysis¹.
 - d) Operating cost savings of \$505k p.a. realised from the closure of Batemans Bay Outdoor Pool, Community Centre and Visitor Information Centre were expected to subsidise the operating losses of Bay Pavilions. It is understood from Council that these savings were not attributed in such a way.
2. **Bay Pavilions was forecast to operate at both an operating and total loss in all the examined documents since the original financial model and business case was prepared in 2017. Council was presented forecast depreciation charges in March 2020 and July 2021.**
 - a) The first iteration of the financial model presented to Council with the 2017 business case³ showed a first-year operating loss of \$970k (specifically excluding depreciation). An updated financial model presented to Council in March 2020 as part of an Operating and Management Model Review⁴ showed a reduced first-year operating loss of \$844k, and a total first-year loss of \$2.6M.
 - b) Council was provided documentation showing forecast depreciation charges, including \$1.3M in the Operating and Management Model Review⁴, and \$1.5M in a July 2021 Budget Forecast prepared by Council⁵, following evaluation of third-party management operator tender responses.
3. **Council had considered the operating loss (excluding depreciation) in February 2020⁶, based on the documents provided for this review. No explicit consideration of how to fund the ongoing operating losses has been noted in any meeting minutes.**
 - a) Council had considered the operating loss (excluding depreciation) in February 2020⁶ (first-year loss estimated at \$844k at that point) and identified cost savings of \$505k p.a. from the closure of Batemans Bay Outdoor Pool, Community Centre and Visitor Information Centre (refer finding 1d).
 - b) A Microsoft Excel document was ultimately submitted to the OLG in April 2020² which included depreciation, loan repayments and a salary for a Council Contract Manager, but it appears that only the first half of the document (showing operating expenses offset by proposed savings) was included in the 18 February 2020 Council briefing meeting⁷. There were no minutes for that meeting, and it is unclear whether the document was identified as a draft OLG submission to Council. No documents have been examined showing Council's endorsement of the OLG submission.
 - c) The February 2020 briefing document to Council shows Bay Pavilions being profitable in its 7th year of operations (after offsetting cost savings of \$505k p.a. from the closure of other facilities). Compared to an externally drafted financial model prepared at the same time⁴, it excludes approximately \$465k p.a. of annual loan repayments and Council Contract Manager salary, effectively understating the costs to operate the facility.
 - d) No documents have been examined where Council considered its ability to fund the increase in operating losses between February 2020⁶ (\$844k first-year operating loss) and July 2021 (\$1.7M operating loss)⁵. In addition, no documented evidence has been provided where Council gives consideration of the substantial depreciation expense and its association with the future refurbishment costs to be incurred and funded.
 - e) No documents have been examined where Council identified the source of funding for the ongoing operating losses.

Source documents
in Appendix B:

¹Document 11
²Document 6

³Document 1
⁴Document 2

⁵Document 12
⁶Document 3

⁷Document 4

Summary of Key Findings (2/2)

4. No Council briefings sighted as part of this review included the full OLG assessment letter from July 2020. In this letter, the OLG suggested Council should ensure it is satisfied with the community demand for the facility, and its ability to subsidise ongoing losses.

- a) A report presented to Council on 28 July 2020¹ (where the OLG assessment was discussed) informed Council that OLG's assessment concluded that Council's review meets the relevant criteria of the *Capital Expenditure Guidelines*.
- b) There were additional considerations raised by the OLG in this assessment, including that 1) Council must be satisfied with the community demand for the facility and 2) Council must be satisfied with its ability to subsidise operating losses. The full OLG correspondence does not appear to have been tabled for Council or briefed, and no evidence was provided for this review showing discussion of these considerations.
- c) Financial information issued to OLG in April 2020² shows \$1.9M in forecast first-year depreciation (compared to \$1.3M in the Operating and Management Model Review³) as well as \$335k in loan repayments. No evidence was provided for this review showing Council's consideration of this information.

5. The management agreement with the third-party operator of Bay Pavilions does not align with key recommendations relating to the management and operating model endorsed by Council.

- a) The Operating and Management Model³ review presented to Council in March 2020 recommended adopting a fee-for-service management model, including appropriate profit share / reward terms to incentivise efficient and sustainable operations consistent with Council objectives. Although we did not undertake a legal review of the actual agreement signed with the third-party operator of Bay Pavilions (Aligned Leisure) to manage the facility, we understand it does not contain terms linking the management fee to performance.
- b) No evidence was provided for this review showing Council critically discussed reasons why the budget provided by Aligned Leisure showed significantly higher operating expenses than forecast. This is despite the \$808k increase in the operating loss for the first-year of operation.

6. No documentation sighted as part of this review demonstrates critical review of financial model assumptions by Council.

- a) Externally prepared financial models supporting Bay Pavilions contained detailed assumptions relating to the size of population catchment areas, expected patronage, staffing and salary expectations, as well as estimates of CPI and wage growth.
- b) The relevant financial models and other information that are part of this review were tabled in the form of briefings (prepared by Council staff or an external provider), presented and ultimately endorsed by Council. However, no minutes were provided for this review demonstrating critical consideration of assumptions or changes to assumptions occurring between documents.
- c) It is unclear what the role of the Audit, Risk and Improvement Committee (ARIC) was in the process. It appears that only 3 out of 5 key financial documents were presented to both Council and ARIC, with ARIC presentations lagging Council presentations by anywhere between 3 and 18 months. Minuted discussion related to ARIC's considerations of these documents was not provided for this review.

7. Externally prepared financial models indicate the facility will continue to operate at both operating and total losses over the 10 years forecast period, with many costs being fixed in nature. Council must identify options to minimise the ongoing losses and consider reprioritising or eliminating projects in its long-term financial planning in order to continue to fund the facility.

- a) Council may consider: 1) renegotiating the current operating and management model to align Council and operator incentives for more cost-effective operations; 2) conducting a procurement review to identify cost-saving opportunities; 3) exploring partnerships with other service providers in the area to run their services out of the facility and share the costs or increase patronage or 4) identifying other commercialisation options such as utilising the current facility to execute Council strategies to generate revenue.

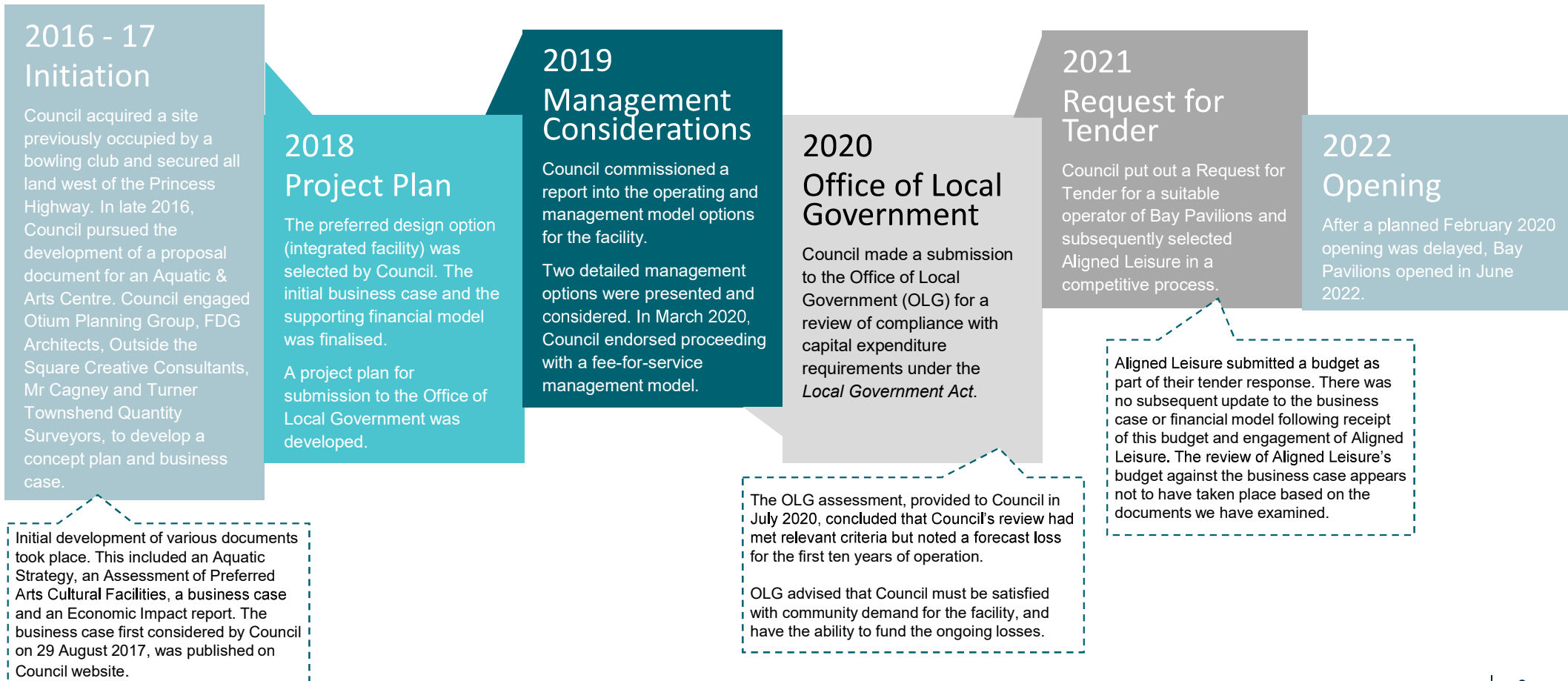
Source documents in Appendix B:	¹ Document 9 ² Document 6	³ Document 2
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02

Bay Pavilions Timeline & Key Documents

Bay Pavilions Timeline

Council acquired the Bay Pavilions site in April 2016 and spent four years finalising the concept and approach for the facility. Another two years were needed to construct the facility before it opened in June 2022.



Key Documents Tabled at Council Meetings

Based on the documents provided to us and examined, we have summarised those presented to Council between 2017 and 2021. All documents that include operating cost information show losses for the first ten years of operation, but the data in this report focusses on the first-year losses given the scope of the review.

Council Meeting Date and Reference	29 August 2017 (PSR17/050)	18 February 2020 (Corporate and Commercial Service Briefing)	10 March 2020 (PSR20/001)	28 July 2020 (PSR17/015)	13 July 2021 (Briefing associated with CAR21/012)
Key briefing document(s) for Council relevant to this review	Mackay Park Regional Aquatic and Arts/Cultural Precinct Business case – Final Draft Report Appendix B Document 1 - Prepared by External Provider	BBRAALC Operating Expenses Appendix B Document 4 - Prepared by Council	BBRAALC Operating and Management Model Review – Final Draft Report dated 19 February 2020 Appendix B Document 2 - Prepared by External Provider	Batemans Bay Regional Aquatic, Arts and Leisure Centre – Tender Appendix B Document 9 - Prepared by Council <i>Note: a copy of OLG's assessment letter advising Council that it must be satisfied with community demand and ability to subsidise losses not included in the briefing based on information provided.</i>	Confidential - Request for Tender No. 2021-046 - Management and Operations of BBRAALC and Shire Pools Appendix B Document 12 - Prepared by Council <i>Note: a review of preferred operator's budget against the March 2020 financial model not included in the briefing based on information provided.</i>
Year-one profit (loss)	Operating: (\$969,788) (specifically excludes depreciation)	Operating: (\$843,570) (specifically excludes depreciation)	Operating: (\$843,570) Total (including depreciation, loan repayments, contract manager): (\$2,588,333)	<i>Financial information limited to capital costs</i>	Operating: (\$1,651,710) ¹ Total (including depreciation, loan repayments, contract manager): (\$3,440,626)
Summary of relevant Council decisions / comments	Endorse the development of a facility for the purposes of informing a detailed design process and seeking grant funding for construction	Identified \$505k p.a. savings from closure of Outdoor Pool (\$130k p.a.), Community Centre (\$15k p.a.) and Visitor Information Centre (\$360k p.a.) to fund ongoing losses	Endorse recommendation that Council adopt a fee-for-service operating and management model	Endorse selection of preferred construction tenderer on the basis of OLG's assessment of compliance with capital expenditure guidelines	Endorse selection of preferred management operator based on evaluation that included consideration of forecast income and expenditure from tenderers
Date considered by ARIC	19 February 2019	<i>No evidence provided for review</i>	19 August 2020 (Verbal update May 2020)	<i>No evidence provided for review</i>	27 October 2021

¹ Year-one operating loss has been adjusted for the purpose of this slide, by removing the loan repayments and contract manager salary, to enable better comparison with the other year-one operating losses presented on this page.

Other Key Documents for This Review

There were at least a dozen iterations of the financial model from August 2017 to April 2021. Based on the timeline of events, the financial model iterations from July 2020 and April 2021 were selected as key drafts. Two additional documents were considered relevant for the purpose of this review, as noted below.

Document Name	BBRAALC operating expenses Appendix B Document 6	BBRAALC Facility Options Review Appendix B Document 7	OLG Assessment Response Appendix B Document 8	BBAALC Financial Model – Ten Year Base Case Appendix B Document 11
Date	April 2020	July 2020	13 July 2020	April 2021
Document Description	Council-prepared operating model costs submitted to OLG to support assessment	Externally prepared 10 Year Financial Model Report following addition of outdoor water play and water slide features	OLG's assessment that facility is compliant with requirements under the <i>Local Government Act</i> .	Externally prepared 10 year financial model <i>Note: Calculation errors were identified in the process of converting the Adobe Pdf document to a Microsoft Excel file to facilitate variance analysis</i>
Year One Profit (Loss)	(\$2,303,690) Includes saving from closure of other facilities (\$2,910,790) Excludes cost saving from closure of other facilities	(\$691,065)	n/a	(\$667,691) – per document (\$750,463) – when contents re-calculated (used for this review)
Date considered by ARIC	<i>No evidence provided for review</i>	<i>No evidence provided for review</i>	<i>No evidence provided for review</i>	<i>No evidence provided for review</i>
Date considered by Council	<i>No evidence provided for review</i>	<i>No evidence provided for review</i>	<i>No evidence provided for review</i>	<i>No evidence provided for review</i>

The April 2021 financial model was selected by Council as the basis for the detailed analysis in this document.

Findings – Bay Pavilions Timeline and Key Documents

FINDINGS

- No detailed meeting minutes for ARIC were available and/or documented to form part of this review. There were no meeting minutes provided to this review that indicate the ARIC was briefed on or approved any version of the business case or financial model at the time of development.
- During the ARIC meeting on 3 March 2021, there were mentions of an updated business case which had not yet been made public. It was unclear whether the ARIC had seen an updated funding model but it was noted that “Councillors and Audit Committee have been briefed on the budget impacts”.
- No evidence was provided for this review showing detailed, critical Council discussion of key documents and information, particularly relating to the ongoing financial impacts of operating the facility. In some cases the facility was discussed in closed sessions of Council meetings or in confidential briefings, for which minutes were not available.
- No evidence was provided for this review showing Council was provided with a copy of the OLG assessment of the facility, which noted that Council must be satisfied with community demand for the facility and be satisfied in its ability to subsidise losses from the General Fund.
- It was, however, clear that in March 2020 Council was provided with an externally prepared document forecasting a loss of \$2,588,333 in the first year of operations (the 2020 Operating and Management Model Review)¹.
- In July 2021, Council was provided with a document² forecasting a loss of \$3,440,626 in the first year of operation, and used this document to endorse the selection of a third party operator for the facility. A review of the preferred operator’s budget against the March 2020 Operating and Management Model Review was not included in the briefing based on information provided. This is despite the \$808,140 increase in the operating loss for the first-year of operation.

Source documents
in Appendix B:

¹Document 2
²Document 12

03

Variance Analysis

Selecting the baseline

On instruction from Council, unless otherwise stated forecast vs actual variance analysis in this review was undertaken using the baseline financial model, being the latest financial model prepared by Council’s external provider.

Key Forecasts	Financial Model Versions		
	August 2017 (Initial business case) Appendix B Document 1	April 2020 (As provided to OLG) Appendix B Document 6	April 2021 (Final externally-prepared model) Appendix B Document 11
# of visitors	276,083	258,710	306,313
Revenue	\$2,949,440	\$3,510,684	\$3,883,858
Operating expenses	(\$3,919,228)	(\$4,354,254)	(\$4,634,321)
Year One Operating Profit (Loss)	(\$969,788)	(\$843,569)	(\$750,463)
Depreciation	\$0	(\$1,947,220)	\$0
Loan Repayments (Interest Only)	\$0	(\$120,000)	\$0
Year One Total Profit (Loss)	(\$969,788)	(\$2,910,790)¹	(\$750,463)

¹ Excludes offset of savings due to closure of other facilities (\$607,000 in reduced expenditure) and \$215,000 in repayment of loan capital included in OLG submission

FINDINGS

- The format, presentation and level of detail of expenditure information varied significantly between the financial models (particularly in relation to other costs including depreciation and borrowing expenses, and the offset of savings from closures of other facilities) as documents were prepared for different purposes (e.g. to seek capital funding, to brief Council on costs, to support OLG’s assessment). As such, a precise direct comparison between documents is difficult.
- Forecast patronage, revenue, and expenditure changed significantly between iterations of the financial model. The reasons for assumption changes were not documented in the files provided for this review. It is noted the increase in visitors was in excess of population growth in the region. An overall operating loss in the first ten years of operations was forecast in all iterations of the financial model. Some financial models, including the baseline financial model, assumed zero depreciation for the facility.
- The baseline financial model (the final externally prepared financial model, Appendix B Document 11) was selected by Council as the appropriate document to use as a baseline for variance, revenue and cost driver analysis. For the remainder of this report, all references to “Financial Model” or “baseline Financial Model” refer to this document.

Adjusting the baseline to facilitate a 9-month comparison

Approach to developing the financial model comparison values:

Actual patronage and financial information for the facility's current performance related to a part-year period of nine months (1 July 2022 to 31 March 2023), whereas the financial model information in Appendix B Document 11 was prepared for a period of twelve months, on a straight-line full-year basis (i.e., assumed no seasonal variation in patronage, revenue or expenses).

In order to facilitate a robust comparison of the actual and forecast performance, this review considered two methods of adjusting financial model information to nine months:

1. Seasonal adjustment

Apply a modifier based on research to reflect seasonal demand, given Bay Pavilions operates in the arts and recreation industry where demand can be skewed to summer months, and is located in a town with a highly seasonal tourism market. Desktop research indicated that for aquatic and recreation centres, a total of 9% of patronage occurs across the months of April, May and June (based on equivalent autumn and winter months in the Northern Hemisphere). However, as the aquatic centre generates only about 40% of the revenue of the facility, this method was not considered appropriate. In addition, given that the financial model was developed on a straight-line basis, a straight-line adjustment (below) was considered more appropriate.

2. Straight line adjustment

Given actual financial information is for nine out of twelve months, apply a 75% (9÷12) modifier to all patronage and financial data.

The comparison of actuals to the adjusted financial model forecast, under the two methods is presented on the right side of this page. Discussions with Council and the third-party operator of Bay Pavilions indicate that actual patronage to the aquatic centre is largely driven by weather and school holiday dates, rather than the month of the year. Additionally, the facility has an Arts & Theatre component, for which demand is primarily based on the specific exhibition on display or productions being presented.

On this basis, we have adjusted annual forecasts by 75% for comparison purposes for our analysis.

	Actual 9 mths ¹ (to 31/3/23)	Financial Model 12 mths	Financial Model 9 mths (Seasonal adjustment)	Financial Model 9 mths (Straight-line adjustment)
# of visitors	203,016	306,313	278,745	229,735
Revenue ¹	\$2,692,238	\$3,883,858	\$3,534,311	\$2,912,894
Operating expenses	(\$3,930,028)	(\$4,634,321)	(\$4,217,232)	(\$3,475,741)
Year One Operating Profit (Loss)	(\$1,237,790)	(\$750,463)	(\$682,921)	(\$562,847)
Depreciation ²	(\$1,878,170)	\$0	\$0	\$0
Year One Total Profit (Loss)	(\$3,115,960)	(\$750,463)	(\$682,921)	(\$562,847)

¹Actual Operating Expenses have been reconstructed based on Profit and Loss information provided by Council (Appendix B Document 15), plus additional expenditure not captured within information as provided (depreciation, energy and water expenses)

²The April 2021 financial model used as a baseline for this analysis did not include any depreciation.

Approach used for analysis against actual performance

Variance analysis summary

The facility operated at a \$1,237,790 operating loss for the nine months to 31 March 2023, 120% higher than forecast. This was driven by a 12% reduction in the actual number of visitors and a 13% increase in operating expenditure compared to the baseline financial model. Depreciation was not included in the baseline financial model.

	Actual 9 mths (31/3/23)	Financial Model 9 mths (Est.)	Financial Model 12 mths (version Apr 2021)	Variance (actuals to 9 mth est.)	% Variance
# of visitors	203,016	229,735	306,313	(26,719)	-12%
Revenue	\$2,692,238	\$2,912,894	\$3,883,858	(\$220,656)	-8%
Operating expenses	(\$3,930,028)	(\$3,475,741)	(\$4,634,321)	(\$454,287)	13%
Year One Operating Profit (Loss)	(\$1,237,790)	(\$562,847)	(\$750,463)	(\$674,943)	120%
Depreciation	(\$1,878,170)	\$0	\$0	(\$1,878,170)	-
Year One Total Profit (Loss)	(\$3,115,960)	(\$562,847)	(\$750,463)	(\$1,092,698)	54%

FINDINGS

- The forecast operating loss in the first year of operations in the baseline financial model was \$750,463. However, patronage has been ~12% lower than forecast, resulting in a ~8% reduction in revenue. Admission, membership and meeting room prices are similar to what was assumed in the financial model (refer Appendix C).
- Operating expenses were 13% above forecast. As a result, the facility operated at an actual operating loss of \$1,237,790 in the 9 months to 31 March 2023. This loss was more than double (120%) the forecast loss.
- Depreciation expenses were not included in the baseline financial model, resulting in an additional \$1,878,170 in year-to-date costs.

Review of key financial and performance metrics

Revenue per visit slightly outperformed forecast, however operating and total expenses were significantly higher than forecast.

Metric	Actual 9 mths (31/3/23)	Financial Model (version Apr 2021)	Variance
Revenue per visit	\$13.26	\$12.68	Higher than forecast
Total expenditure per visit (including depreciation forecast per OLG submission) ¹	\$28.61	\$21.49	Higher than forecast
Operating expenses per visit	\$19.36	\$15.13	Higher than forecast
Total profit (loss) per visit (including depreciation forecast per OLG submission) ¹	(\$15.35)	(\$8.81)	Lower than forecast (i.e. greater loss)
Operating profit (loss) per visit	(\$6.10)	(\$2.45)	Lower than forecast (i.e. greater loss)
Total expense recovery (Revenue ÷ total expenses per visit including depreciation forecast per OLG submission) ¹	46%	59%	Lower than forecast
Operating expense recovery (as above, excluding depreciation)	69%	84%	Lower than forecast
Labour cost per visit	\$10.23	\$8.76	Higher than forecast
Utilities cost per visit	\$3.05	\$1.46	Higher than forecast
Marketing cost per visit	\$0.16	\$0.41	Lower than forecast

FINDINGS

- Revenue per visit is approximately 5% higher than forecast, potentially due to lower than anticipated patronage of low revenue business areas (e.g. Arts & Theatre).
- Expenditure per visit was higher than forecast. The absence of depreciation in the baseline financial model impacts this result, however even when depreciation is excluded from actuals, per visit operating expenditure exceeded forecast by 28% (actual result of \$19.36 compared to forecast of \$15.13).
- As a result, performance is significantly below forecast on the key sustainability metrics of loss per visit and expense recovery. The operation of Bay Pavilions loses \$15.35 per visitor, recovering less than half of the costs of operating the facility.
- Bay Pavilions makes an operating loss of \$6.10 per visit, more than double the \$2.45 forecast in the baseline financial model.
- Labour and utilities costs are significantly higher than forecast on a per visit basis.

¹ For the purpose of comparison, "Financial Model" value includes depreciation as forecast in April 2020 OLG submission (\$1,947,220 per annum)

04

Revenue & Cost Driver Analysis

Variance analysis – revenue (1/2)

Actual performance against forecast varied considerably between business areas. Arts & Theatre recorded the biggest percentage drop compared to forecast, and Health & Fitness and Memberships performed better than forecast.

Business Area	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Health & Fitness and Memberships ¹	\$960,087	\$892,386	\$1,189,847	\$67,701	8%
Arts & Theatre	\$220,482	\$288,201	\$384,268	(\$67,719)	-23%
Café & Merchandise	\$416,574	\$493,931	\$658,575	(\$77,357)	-16%
Aquatic Centre	\$1,063,190	\$1,208,376	\$1,611,168	(\$145,186)	-12%
Other	\$31,905	\$30,000	\$40,000	\$1,905	6%
Total Revenue	\$2,692,238	\$2,912,894	\$3,883,858	(\$220,656)	-8%

¹"Health & Fitness" and "Memberships" are presented as separate business areas in the financial model and in actual financial results, however in practice there is significant overlap in how revenue is attributed between the two categories. As such, these two categories have been presented together for greater comparability between actual and forecast information.

FINDINGS

- Actual total revenue for the nine months of operation was \$2,692,238, compared to a forecast of \$2,912,894, an 8% negative variance.
- Actual revenue for Health & Fitness and Memberships, and Other revenue are higher than forecast.
- Negative revenue variances are present for all other business areas, with Arts & Theatre having the largest variance by proportion and Aquatic Centre revenue being the highest dollar variance.
- Total patronage across all business areas was 12% below forecast, which is the key driver for the negative revenue variances.

Variance analysis – revenue (2/2)

Actual patronage varied considerably between business areas, Arts & Theatre recording the biggest drop compared to forecast, and the Aquatic Centre having higher than forecast patronage. On a per visit basis, revenue exceeded forecast in all business areas other than the Aquatic Centre.

VISITORS

Business Area	Actual 9 mths ¹ (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Arts & Theatre	10,821	39,968	53,290	(29,147)	-73%
Health & Fitness and Memberships ²	61,259	77,153	102,870	(15,894)	-21%
Aquatic Centre	124,271	112,615	150,153	11,656	10%
Other ³	6,665	0	0	6,665	-
Total	203,016	229,736	306,313	(26,720)	-12%

PER VISIT REVENUE

Business Area	Actual 9 mths ¹ (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Arts & Theatre	\$20.37	\$7.21	\$7.21	\$13.16	183%
Health & Fitness and Memberships ²	\$15.67	\$11.57	\$11.57	\$4.11	35%
Aquatic Centre	\$8.56	\$10.73	\$10.73	(\$2.17)	-20%
Overall	\$13.26	\$12.68	\$12.68	\$0.58	5%

¹Café & Merchandise patronage is not tracked.

² "Health & Fitness" and "Memberships" are presented as separate business areas in the financial model and in actual financial results, however in practice there is significant overlap in how revenue is attributed between the two categories. As such, these two categories have been presented together for greater comparability between actual and forecast information.

³Other visitors include (but are not limited to) staff usage and students outside of school hours.

FINDINGS

- The actual number of visitors fell short of the overall forecast from the baseline financial model by 12%, with higher than expected Aquatic Centre patronage but low Arts & Theatre and Health & Fitness and Memberships patronage.
- As shown on the previous page, overall revenue was 8% below forecast. On a per-visit basis, however, revenue exceeded forecast by 5%.
- Arts & Theatre patronage was 73% below forecast, however revenue was only 23% below forecast (as seen on the prior page). As a result, per-visitor Arts & Theatre revenue was considerably more than forecast (\$20.37 per visit compared to \$7.21 per visit).
- Similarly, Health & Fitness and Memberships revenue was above forecast, despite a 21% reduction in patronage. Per-visit revenue was significantly higher than forecast.
- Aquatic Centre patronage was higher than forecast, however revenue was below forecast, generating 20% less revenue on a per visit basis.
- Patronage forecasts were based on detailed population and patronage assumptions. The assumptions included (but were not limited to):
 - Every resident would visit the facility between two and eight times per year, depending on how far from the facility they lived, but regardless of age
 - 30% of all visits would use (and pay for) a second activity (e.g. Aquatic Centre and Health & Fitness), despite most memberships allowing users to access multiple areas without additional charge
- These assumptions were based on actual patronage of similar sized facilities in other coastal towns, however no evidence was provided for this review showing critical analysis of their applicability to Eurobodalla.

Variance analysis – expenses (1/5)

Both operating and total expenses exceeded forecast. Cleaning and cleaning materials, and Utilities costs were particularly high when compared to forecast, however some costs (including Marketing & advertising, Repairs & maintenance, and Other costs) were below forecast.

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Interest	\$23,686	\$0	\$0	\$23,686	-
Cleaning and cleaning materials	\$301,988	\$143,093	\$190,791	\$158,895	111%
Utilities	\$619,913	\$335,163	\$446,884	\$284,750	85%
Management fee	\$183,181	\$120,000	\$160,000	\$63,181	53%
Cost of goods sold (COGS)	\$254,250	\$184,267	\$245,690	\$69,983	38%
Facility costs	\$15,236	\$11,250	\$15,000	\$3,986	35%
Salaries & wages	\$2,060,335	\$1,961,092	\$2,614,789	\$99,243	5%
Insurance	\$29,023	\$32,250	\$43,000	(\$3,227)	-10%
Other	\$274,820	\$314,250	\$419,000	(\$39,430)	-13%
Repair & maintenance	\$99,625	\$171,680	\$228,906	(\$72,054)	-42%
Marketing & advertising	\$31,824	\$94,311	\$125,748	(\$62,487)	-66%
Other staff costs	\$17,518	\$52,135	\$69,513	(\$34,617)	-66%
Bank fees	\$18,629	\$56,250	\$75,000	(\$37,621)	-67%
Year One Operating Expenses	\$3,930,028	\$3,475,741	\$4,634,321	\$454,287	13%
Depreciation	\$1,878,170 ¹	\$0	\$0	\$1,878,170	-
Year One Total Expenses	\$5,808,198	\$3,475,741	\$4,634,321	\$2,332,457	67%

FINDINGS

- Before depreciation, year-to-date expenditure was 13% above forecast in the baseline financial model (noting there were 12% fewer visitors than forecast).
- Actual depreciation to date was \$1,878,170, compared to \$0 forecast in the baseline financial model¹.
- Expenses were higher than forecast in six of thirteen categories: 1) Interest, 2) Cleaning and Cleaning materials, 3) Utilities, 4) Management fee, 5) COGS and 6) Facility costs. Cleaning and cleaning materials costs were more than double forecast, utilities more than 80% above forecast and management fees more than 50% above forecast.
- Six expense categories had lower than forecast expenditure, including Salaries and Wages, Repairs and Maintenance, and Marketing and Advertising.
- It is noted that the baseline financial model assumed CPI of 0% in 2021, and 1.8% in all subsequent years of the forecast. Actual CPI² was 3.8% in FY21, 6.8% in FY22 and 7% in the year ending March 2023.
- While the financial model was built on revenue and expenses per business area, Bay Pavilions actual performance data was not able to be provided per business area. As such a more detailed analysis of cost drivers was not possible.

¹ Our analysis added this missing depreciation (\$1,878,170 being 9 months or 75% of \$2.4M) into an updated estimate, however we understand that following completion of our analysis this figure has been revised to \$2.26M p.a.

² Consumer Price Index; All Groups; Australia; ABS

Variance analysis – expenses (2/5)

Management fee and Cleaning and cleaning materials were both significantly higher than forecast. Higher than forecast CPI impacted these costs, however does not explain the size of the variance.

MANAGEMENT FEE

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Management fee	\$183,181	\$120,000	\$160,000	\$63,181	53%

CLEANING & CLEANING MATERIALS

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Cleaning and cleaning materials	\$301,988	\$143,093	\$190,791	\$158,895	111%

FINDINGS

- Although a legal review of the management agreement was not undertaken as part of this review, we understand that the management fee paid to the third-party operator of Bay Pavilions is a fixed amount.
- The fee for service model proposed in the Operating and Management Model Report and approved by Council recommended including profit share or reward incentives within a third-party operator agreement. The actual agreement as executed states that the operator must meet all KPIs to be eligible for reward incentives, however does not contain any further reference to reward incentives. The fee schedule of the agreement notes that the management fee is fixed and does not change regardless of actual income and expenditure.
- As a result, there are no contractual commercial incentives for Bay Pavilions to be operated in an efficient and sustainable manner consistent with the Council's objectives.
- The baseline financial model showed a fixed amount for management fees, however no information was provided stating the basis for the forecast. Actual management fees were 53% higher than forecast. The agreement was signed subsequent to the baseline financial model, which was not revised following execution.
- Cleaning costs were more than double what was forecast in the financial model. Actual financial data lacks a breakdown of cleaning and costs by business area, preventing further analysis of why cleaning costs have risen.
- CPI forecast in the financial model was 0% in 2021, and 1.8% in subsequent years, compared to actual CPI of 3.8% in FY21, 6.8% in FY22 and 7% in the year ending March 2023¹.

¹ Consumer Price Index; All Groups; Australia; ABS

Variance analysis – expenses (3/5)

Salaries and wages and Other staff costs were below the financial model forecast. Actual utilities costs (water and electricity) were 85% higher than forecast. Higher than forecast wage growth and energy prices placed upward pressure on expenditure, however limited information prevented detailed analysis of cost drivers.

EMPLOYEE EXPENSES

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Salaries & wages	\$2,060,335	\$1,961,092	\$2,614,789	(\$99,243)	-5%
Other staff costs	\$17,518	\$52,135	\$69,513	(\$34,617)	-66%

UTILITIES

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Utilities	\$619,913	\$335,163	\$446,884	\$284,750	85%

FINDINGS

- Actual Salaries and wages were below forecast by approximately 5%. Forecast salaries and wages were developed based on salary and staffing assumptions by role and by business unit.
- The third-party operators of the facility are responsible for recruitment and staffing decisions. Between 1 October 2022 and 31 March 2023, actual staffed hours for the facility matched the approximately 40 FTE forecast for year one operations.
- Actual salary information by role, information relating to actual hours worked between July and September 2022 and a breakdown of hours by business unit was unavailable for this review. This prevented further detailed cost driver analysis.
- Actual wage growth was 3.6%¹ between October 2020 and July 2022, which exceeded the 0% assumed in the forecast.
- Actual Utilities costs were 85% above forecast.
- Australian utility prices increased by 15.2%² in the year to 31 March 2023, which placed upward pressure on the unit price of energy and water. This, however, does not explain the entire variance.
- The baseline financial model does not contain energy or water consumption forecasts, preventing analysis of usage or efficiency.
- In October 2022, ARIC was briefed on the intention to undertake an energy audit, indicating that usage has been identified as an area of potential leakage.

¹ Arts and Recreation Services Industry Wage Price Index Growth; Australia; ABS

² Consumer Price Index; Utilities; Australia; ABS

Variance analysis – expenses (4/5)

Actual depreciation significantly exceeded forecasts within any iteration of the financial model or business case, for reasons including revisions to asset useful lives.

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Depreciation	\$1,878,170 ¹	\$0	\$0	\$1,878,170	-

¹Financial statements to 31 March 2023 only included depreciation of motor vehicles and IT assets, not the facility itself (at the time estimated at \$2,400,000 p.a.). Our analysis added this missing depreciation (\$1,878,170 being 9 months or 75% of \$2,400,000) into an updated estimate, however we understand that following completion of our analysis this figure has been revised to \$2.26M p.a.

FINDINGS

- Forecast depreciation varied significantly across the following documents:
 - \$0 in the August 2017 business case, February 2020 financial model presented to Council, July 2020 Facility Options Review and April 2021 financial model used as a baseline for our analysis (all externally prepared). The external preparer of these financial models noted that it is unusual to include depreciation in early project stages.
 - \$1,280,000 p.a. in the Operating and Management Model Report presented to Council in March 2020 (externally prepared)
 - \$1,947,220 p.a. in the documents submitted to OLG in April 2020 (prepared by Council)
 - \$1,476,000 p.a. in the evaluation report presented to Council in July 2021 following selection of a third-party operator (prepared by Council)
- Revisions were made to the asset register in 2023 on completion of the FY23 financial statements to more accurately reflect asset categories, replacement costs, and useful lives. These revisions resulted in higher actual depreciation compared to the baseline financial model and the latest Council-prepared evaluation report in July 2021.

Variance analysis – expenses (5/5)

Actual expenditure was below forecast in some expense categories; however it is unclear if this is due to efficient operation of the facility or due to variances between the financial model assumptions and actual performance.

	Actual 9 mths (31/3/23)	Financial model 9 mths	Financial model 12 mths	Variance 9 mths (\$)	Variance 9 mths (%)
Interest	\$23,686	\$0	\$0	\$23,686	-
COGS	\$254,250	\$184,267	\$245,690	\$69,983	38%
Facility costs	\$15,236	\$11,250	\$15,000	\$3,986	35%
Insurance	\$29,023	\$32,250	\$43,000	(\$3,227)	-10%
Other	\$274,820	\$314,250	\$419,000	(\$39,430)	-13%
Repairs & Maintenance	\$99,625	\$171,680	\$228,906	(\$72,054)	-42%
Marketing & Advertising	\$31,824	\$94,311	\$125,748	(\$62,487)	-66%
Bank fees	\$18,629	\$56,250	\$75,000	(\$37,621)	-67%

FINDINGS

- The cost of borrowing was not specifically considered within the baseline financial model, despite Council's intention to partially fund capital costs through debt.
- The actual COGS was 38% higher than forecast, despite Café and Merchandise revenue being 13% below forecast.
- Repairs & Maintenance was 42% below forecast. As at 31 March 2023, the facility was still within the construction defects period. The financial model assumed a fixed repairs and maintenance charge over ten years and did not make any allowance for increases in these costs as the facility ages.
- Marketing & Advertising expenditure was significantly below forecast. Detailed marketing spend assumptions were not included in the financial model, therefore preventing further cost driver analysis, or analysis of impacts of reduced marketing and advertising spend on patronage.
- CPI forecast in the financial model was 0% in 2021, and 1.8% in subsequent years, compared to actual CPI of 3.8% in FY21, 6.8% in FY22 and 7% in the year ending March 2023¹. Higher than forecast CPI placed upward pressure on several expense categories. This, however, does not explain the entire variance.
- Limited information on cost drivers in the financial model and/or the comparable actual performance prevented detailed analysis of cost drivers.

¹ Consumer Price Index; All Groups; Australia; ABS

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Appendix

Appendix A – Stakeholders Consulted

Name	Title	Date interviewed
Eurobodalla Shire Council		
Carlyle Ginger	Divisional Manager – Community, Arts and Recreation Services	21 April 2023
Kathy Arthur	Director – Community, Arts and Recreation Services	21 April 2023
Lindsay Usher	Director – Planning and Sustainability & Bay Pavilions PMO	19 April 2023
Mathew Hatcher	Mayor	19 April 2023
Stephanie Speedy	Director – Finance and Corporate Services	19 April 2023
Warwick Winn	General Manager	1 May 2023
Aligned Leisure		
Shane Dunne	Chief Executive Officer	8 May 2023
Chris Tague	Arts and Leisure Manager, Bay Pavilions	8 May 2023

Appendix B – Key Documents Reviewed

Council provided approximately 200 documents for this review. The below table presents the key documents that are referred to within this report.

#	Document Name	Description	Date per Document	Preparer
1	Mackay Park, Batemans Bay Regional Aquatic & Arts / Cultural Precinct – Business Case Final Draft Report	2017 Business Case (pdf)	Aug-17	Otium Planning Group
2	Batemans Bay Arts and Aquatic Leisure Centre Operating and Management Model Review – Final Draft Report	Report considering operating and management model options for Bay Pavilions (pdf)	Feb-20	Otium Planning Group
3	BBRAALC – Confidential Briefing 18 Feb 2020	Confidential Briefing to Council on status of facility, including updated capital cost estimates, operational costs, management options and capital funding sources (doc)	18-Feb-20	Eurobodalla Shire Council
4	BRIEFING 19 FEB 2020 – CONFIDENTIAL ATTACHMENT 1 – BBRAALC operating expenses	High level ten-year forecast of operating income and expenses for Bay Pavilions, including forecast operating expense savings from closure of other facilities (doc)	18-Feb-20	Eurobodalla Shire Council
5	Council Minutes – 10 March 2020	Minutes of Council Meeting – 10 March 2020 (pdf)	10-Mar-20	Eurobodalla Shire Council
6	Copy of BBRAALC operating expenses April 2020	Worksheet detailing operating expenses for Bay pavilions provided to support OLG assessment (xls)	Apr-20	Eurobodalla Shire Council
7	BBRAALC Facility Options Review – Addition of Outdoor Water Play and Water Slide Features	Updated ten-year financial model following addition of outdoor water play and water slide features (pdf)	Jul-20	Otium Planning Group
8	OLG Response	Letter from Office of Local Government to Council noting outcome of assessment with <i>Capital Expenditure Guidelines</i> (pdf)	13-Jul-20	Office of Local Government
9	Report to Ordinary Meeting of Eurobodalla Shire Council (PSR20/15)	Report to Ordinary Meeting of Eurobodalla Shire Council regarding Batemans Bay Regional Aquatic, Arts and Leisure Centre Construction Tender	28-Jul-20	Eurobodalla Shire Council
10	Council Minutes – 29 August 2017	Minutes of Council Meeting – 29 August 2017 (pdf)	29-Aug-17	Eurobodalla Shire Council

Appendix B – Key Documents Reviewed

Council provided approximately 200 documents for this review. The below table presents the key documents that are referred to within this report.

#	Document Name	Description	Date per Document	Preparer
11	BBAALC Final FM Ten Year Base Case 12-04-21	Ten-year financial model (pdf)	12-Apr-21	Otium Planning Group
12	Request for Tender No. 2021 046 - Management of the Bay Pavilions (from August 2021), Moruya and Narooma pools (from July 2022) Forward Budgets	Briefing and Evaluation summary following selection of preferred third-party operator, including four year budget forecast (pdf)	Jul-21	Eurobodalla Shire Council
13	Council Minutes – 13 July 2021	Minutes of Council Meeting – 13 July 2021 (pdf)	13-Jul-21	Eurobodalla Shire Council
14	Council Agenda – 13 July 2021	Council Meeting Agenda – 13 July 2021 (pdf)	13-Jul-21	Eurobodalla Shire Council
15	Bay Pavilions Monthly P&L	Monthly Profit and Loss statement (xls)	Mar-23	Eurobodalla Shire Council
16	Bay Pavilions Project 1002547 Actuals	Monthly financial statements (xls)	Mar-23	Eurobodalla Shire Council
17	Bay Pavilions - ARIC	Council prepared summary of ARIC minutes relating to Bay Pavilions between 8 August 2017 and 15 Feb 2023 (xls)	Apr-23	Eurobodalla Shire Council
18	Entry data breakdown 28042023	Evidence of actual patronage August 2022 to March 2023 by month and entry type (xls)	28-Apr-23	Aligned Leisure

Appendix C – Admission Prices

Admission Type	Actual	Financial Model (Apr 2021)	Variance
Aquatic centre - Adult	7.00	7.00	0.00
Aquatic centre - Child/Concession	5.00	5.00	0.00
Swimming class	17.00	17.00	0.00
Aquatic membership - Adult	44.30	48.00	(3.70)
Aquatic membership - Child/Concession	38.76	42.00	(3.24)
Membership joining fee	60.00	60.00	0.00
Gym - Adult	17.00	17.00	0.00
Gym - Concession	13.00	13.00	0.00
Gym membership - Adult	62.04	67.20	(5.16)
Gym membership - Concession	54.28	58.80	(4.52)
Health & fitness class - Adult	15.00	15.00	0.00
Health & fitness class - Concession	12.00	13.00	(1.00)
H&F membership - Adult	77.54	62.40	15.14
H&F membership - Concession	71.08	54.60	16.48
Platinum membership - Adult	90.46	86.00	4.46
Platinum membership - Concession	83.08	78.70	4.38
Gold membership - Adult	not used	71.00	n/a
Gold membership - Concession	not used	61.00	n/a
Meeting room - Community	300.00	300.00	0.00
Meeting room - Standard	380.00	380.00	0.00
Gallery hire - Community	499.00	499.00	0.00
Gallery hire - Standard	579.00	499.00	80.00
Studio hire (1 hr) - Community	30.00	30.00	0.00
Studio hire (1 hr) - Standard	35.00	35.00	0.00
Studio hire (1 hr) - Commercial	40.00	40.00	0.00

End of Report

