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# 1. Overview

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Tredwell Management Services has been requested by the District Council of Loxton Waikerie to prepare a financial model/s for the operation of the proposed Loxton Sports Complex (Complex). The key features of the Complex are two indoor sports courts suitable for a range of indoor sports including basketball, netball, volleyball, indoor soccer and gymnastics. In addition to the courts the Complex features changeroom facilities, a canteen, a future function area, a potential gymnasium area (on the mezzanine floor), offices and storage.

The modelling is prepared over a five year period and is based on industry benchmarks primarily derived from the University of South Australia's CERM Performance Indicators project<sup>1</sup> for public recreation centres and similar sized centres and catchment populations.

Two scenarios have been prepared, the first a "conservative scenario" in which the facility is primarily used by the existing user groups and clubs and managed by Council off site. The second scenario is a "potential scenario" in which in addition to the existing user groups usage, an external manager operates and programs the facility with events and competitions and the gymnasium area is leased to a local operator.

To enable the modelling to be prepared a series of assumptions have been made and are included in the spreadsheet models (attached). In summary these are:

- The predicted number of annual visits (conservative = 50,000 and potential = 100,000)
- The management model utilised, conservative: Council managed and potential: paid external Manager.
- Function centre not in operation
- Gymnasium is leased to a local operator (potential scenario only) and the operator retains all revenue from the gymnasium
- Canteen is operational (potential scenario only)
- Casual/social activities are conducted (potential scenario only)
- Events are attracted to the centre (potential scenario only)

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<sup>1</sup> University of South Australia Business School, Operational Benchmarks for Australian Public Recreation Centres 2016

## 2. Conservative Scenario

The conservative scenario forecasts that Council would need to subsidise the operation of the facility at around \$50,000 per annum excluding Council staff costs, interest and depreciation.

| <b>Profit/Loss</b>   | Year 1             | Year 2             | Year 3             | Year 4             | Year 5             |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Revenue</b>   |                    |                    |                    |                    |                    |
| Regular Users Hire   | \$26,264           | \$26,684           | \$27,111           | \$27,545           | \$27,985           |
| Grants/Sponsorship   | \$5,000            | \$5,080            | \$5,161            | \$5,244            | \$5,328            |
| <b>Total Revenue</b>   | <b>\$ 31,264</b>   | <b>\$31,764</b>    | <b>\$32,272</b>    | <b>\$32,789</b>    | <b>\$33,313</b>    |
| <b>Expense</b>   |                    |                    |                    |                    |                    |
| Administration Expense   | \$ 12,600          | \$ 12,802          | \$ 13,006          | \$ 13,215          | \$ 13,426          |
| Operations Expense   | \$ 64,430          | \$ 65,461          | \$ 66,508          | \$ 67,572          | \$ 68,654          |
| <b>Total Expense</b>   | <b>\$ 77,030</b>   | <b>\$ 78,262</b>   | <b>\$ 79,515</b>   | <b>\$ 80,787</b>   | <b>\$ 82,080</b>   |
| <b>Surplus/Deficit (ex I+D)</b>  | <b>-\$ 45,766</b>  | <b>-\$ 46,498</b>  | <b>-\$ 47,242</b>  | <b>-\$ 47,998</b>  | <b>-\$ 48,766</b>  |
| Interest (I) Expense   | \$ 55,500          | \$ 55,500          | \$ 55,500          | \$ 55,500          | \$ 55,500          |
| Depreciation (D) Expense   | \$ 311,000         | \$ 311,000         | \$ 311,000         | \$ 311,000         | \$ 311,000         |
| <b>Total Surplus/Deficit</b>   | <b>-\$ 412,266</b> | <b>-\$ 412,998</b> | <b>-\$ 413,742</b> | <b>-\$ 414,498</b> | <b>-\$ 415,266</b> |
| <b>Assumptions</b>   |                    |                    |                    |                    |                    |
| Managed by Council administration remotely from the Principal Office                                 |                    |                    |                    |                    |                    |
| Revenue derived by local sports clubs regular use only   |                    |                    |                    |                    |                    |
| CPI - Annual   | 1.60%              |                    |                    |                    |                    |
| Function centre is not operational   |                    |                    |                    |                    |                    |
| Gymnasium is not accessible to the general public  |                    |                    |                    |                    |                    |
| Calculations based on University of South Australia Performance Indicators and similar sized centres |                    |                    |                    |                    |                    |

### 3. Potential Scenario

| <b>Profit/Loss</b>   | <b>Year 1</b>      | <b>Year 2</b>      | <b>Year 3</b>      | <b>Year 4</b>      | <b>Year 5</b>      |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Revenue</b>   |                    |                    |                    |                    |                    |
| Cafe/Kiosk   | \$ 30,000          | \$ 30,480          | \$ 30,968          | \$ 31,463          | \$ 31,967          |
| Merchandise  | \$ 3,000           | \$ 3,048           | \$ 3,097           | \$ 3,146           | \$ 3,197           |
| Regular Users Hire   | \$ 37,538          | \$ 38,139          | \$ 38,749          | \$ 39,369          | \$ 39,999          |
| Functions + Events   | \$ 37,000          | \$ 37,592          | \$ 38,193          | \$ 38,805          | \$ 39,425          |
| Other Programs   | \$ 17,900          | \$ 35,800          | \$ 35,800          | \$ 35,800          | \$ 35,800          |
| Rental   | \$ 40,000          | \$ 40,640          | \$ 41,290          | \$ 41,951          | \$ 42,622          |
| Grants/Sponsorship etc   | \$ 5,000           | \$ 5,080           | \$ 5,161           | \$ 5,244           | \$ 5,328           |
| <b>Total Revenue</b>   | <b>\$ 170,438</b>  | <b>\$ 190,779</b>  | <b>\$ 193,258</b>  | <b>\$ 195,778</b>  | <b>\$ 198,337</b>  |
| <b>Expense</b>   |                    |                    |                    |                    |                    |
| Management Fee   | \$ 50,000          | \$ 50,800          | \$ 51,613          | \$ 52,439          | \$ 50,000          |
| Administration Expense   | \$ 16,600          | \$ 16,866          | \$ 17,135          | \$ 17,410          | \$ 17,688          |
| Operations Expense   | \$ 84,430          | \$ 85,781          | \$ 87,153          | \$ 88,548          | \$ 89,965          |
| COGS   | \$ 17,000          | \$ 17,272          | \$ 17,548          | \$ 17,829          | \$ 18,114          |
| <b>Total Expense</b>   | <b>\$ 168,030</b>  | <b>\$ 170,718</b>  | <b>\$ 173,450</b>  | <b>\$ 176,225</b>  | <b>\$ 175,767</b>  |
| <b>Surplus/Deficit (ex I+D)</b>  | <b>\$ 2,408</b>    | <b>\$ 20,060</b>   | <b>\$ 19,808</b>   | <b>\$ 19,552</b>   | <b>\$ 22,570</b>   |
| Interest (I) Expense   | \$ 55,500          | \$ 55,500          | \$ 55,500          | \$ 55,500          | \$ 55,500          |
| Depreciation (D) Expense   | \$ 311,000         | \$ 311,000         | \$ 311,000         | \$ 311,000         | \$ 311,000         |
| <b>Total Surplus/Deficit</b>   | <b>-\$ 364,092</b> | <b>-\$ 346,440</b> | <b>-\$ 346,692</b> | <b>-\$ 346,948</b> | <b>-\$ 343,930</b> |
| <b>Assumptions</b>   |                    |                    |                    |                    |                    |
| Managed externally by an experienced sport and leisure centre management organisation                |                    |                    |                    |                    |                    |
| Management focus on attracting events  |                    |                    |                    |                    |                    |
| Revenue derived by local sports clubs regular use, rent and social/casual use of courts              |                    |                    |                    |                    |                    |
| CPI  | 1.60%              |                    |                    |                    |                    |
| Function centre is not operational   |                    |                    |                    |                    |                    |
| Fitness centre is leased to local operator   |                    |                    |                    |                    |                    |
| Calculations based on University of South Australia Performance Indicators and similar sized centres |                    |                    |                    |                    |                    |
| Café is operational  |                    |                    |                    |                    |                    |

The potential scenario forecasts that Council would not need to provide an operating subsidy, with the exception of the management fee and if you exclude interest and depreciation. The upside of this model is there is an opportunity to attract additional special events which would contribute to the local economy through direct spending at local accommodation, food, fuel providers and other incidental spending. With the exception of additional secondary spending at the Complex, special events on their own are unlikely to generate significant direct revenue for the Complex they do however provide increased publicity for the centre and expose attendees to the Complex offerings who then in turn may return as regular users.

Potential special events and competitions that could be attracted to the Complex include:

- State Masters Games
- pre-season NBL/WNBL/Thunderbirds games;
- local/district/regional carnivals for basketball/netball/volleyball/indoor soccer;
- Martial arts tournaments;
- Parkour events;
- Gaming/e-sport conventions
- Religious gatherings/events
- Trade fairs and conventions
- Hobby displays and events
- Markets and stall holders

The other substantial revenue generation opportunity is the function centre which is currently not factored into either model. This could either be leased to an external party (e.g. sports club, community organisation or catering business) and Council could receive an annual rent with perhaps a revenue/profit sharing arrangement. Alternatively, this may be operated by the centre manager. If operated professionally with appropriate liquor licensing and food and beverage services could provide a significant revenue boost to the centre. Industry benchmarks suggest this could be in the order of \$50,000 to \$100,000 if managed well.