



# SPRINGWOOD COMMUNITY AND CULTURAL FACILITY FEASIBILITY STUDY

August 2011

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Draft

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## Synopsis

This report is prepared to provide the economic, financial, and business planning framework around the decision by Council to develop a community facility, incorporating a Theatre and Library, at Springwood. There is a financial impost on Council which in total is assessed to have a net present value of some \$14.3 million prior to the deduction of the \$9.5 million grant. In addition other funding of up to \$6 million has been identified through a combination of property sales and loans. Although the project involves a significant investment by Council and the community, subject to the ability of the Library to attract strong growth in patronage and the ability of the Theatre to attract regular performances and other patronage, the project is assessed as providing a positive net benefit to the community.

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# Executive Summary

This report has been prepared in response to a proposal by the Blue Mountains City Council (BMCC) to redevelop the Springwood Community and Cultural Facilities Site. It comprises a Financial Analysis and Business Plan, incorporating a Risk Management Plan, and a Feasibility Assessment. These are prepared with a view to complying with the requirements of the Division of Local Government (DLG) Capital Expenditure Guidelines. In particular the report is prepared with consideration of the financial implications, business/management project plan and risk management requirements of the Guidelines.

Urbis has applied the following broad methodology in this study;

- reviewed the work completed to date in relation to the proposal.
- met with the Team and spoken to Council Officers to discuss the project and review initial thoughts and processes and provide initial guidance on the market and social parameters in relation to the site.
- analysed the existing built form and assessed the capital and rental market value of the existing site to provide an opportunity cost and inform the analysis.
- obtained and reviewed data/information relating to;
  - Costs, including but not limited to indirect management costs, construction and development costs, operating costs such as ongoing maintenance, outgoings and lease management costs, exemptions, details and other cost information considered relevant.
  - Benefits, including; existing uses, estimates of market rentals, selling costs.
  - Social costs, benefits and qualitative outcomes.
- Assessed development costs by reference to quantity surveying advice obtained and through our experience and research.
- Reviewed and assessed planning parameters and advice.
- Reviewed and assess urban design work and considerations.
- Reviewed the concept plans in relation to user and community considerations and outcomes.
- Analysis has been undertaken of the proposed built form and an assessment made of the gross realisation value. The possible residual/terminal value of the existing and proposed development(s) has also been assessed.
- Urbis has further considered commercial opportunities which may have the potential to provide a revenue stream and enhance the community and cultural facilities.
- Having obtained the necessary data and inputs we have prepared an Economic Appraisal Model using an Excel based platform and entered the assessed costs and benefits to the community as a whole.
- Following stakeholder review and discussions, we have refined and developed the EA options and analysis to obtain financial measures including NPV, IRR and BCR for each option.
- Undertaken a qualitative assessment of the options.
- Undertaken a financial appraisal of the preferred option, assessing the ability of the Client to deliver proposals.
- Prepared a Financial Impact Statement.
- Having considered the broader economic situation and the financial implications to Council, we look in more detail at the operation of the facility within the Business Plan.
- The Business Plan incorporates an evaluation of markets, business structure, personnel, objectives, rationale and financial projections and provides a description of the proposed plan.

- Within the context of the Business Plan we have prepared a Risk Management Plan incorporating elements of potential risks and assessing consequences and mitigation strategies. This considers: Investment/Planning, Design, Market, Management, Reputation, Compliance, Completion, Environmental and Occupational Health risks.

## THE SITE, PROPERTY DESCRIPTION AND IMPROVEMENTS

The subject site is located at 104 and 108 Macquarie Road, Springwood some 71 kilometres west of the Sydney CBD, 32 kilometres east of Katoomba Town Centre and 450 metres east of Springwood Railway Station.

The existing site comprises 2 lots being of some 4,823 sq.m and 4,426 sq.m for 104 and 108 Macquarie Road respectively.

Existing improvements incorporate the heritage listed Braemar House, existing hall and civic space, a neighbourhood centre, early childhood centre, library along with offices and basement library of 595 sq.m. The existing gross floor area (GFA) is estimated at some 2,976 sq.m.

## THE NEED

The Council and Council Officers have identified the need to upgrade and improve the existing site and facilities given the dated and inefficient nature of the facilities and the opportunity to enhance the diversity and activity in the broader community. As mentioned, the Needs Assessment undertaken by Argyle research and Training Pty. Limited found that all services operating within Council owned facilities in Springwood are operating at capacity; all require more space (operational and storage) in order to operate more effectively.

## Options Considered

Option	Name	Size sqm	Details
Option 0	Do Nothing	2,976	Continue to operate and manage the site as is currently done, with some minor upgrading
Option 1	Minimum	6,494	Theatre to front (includes regular and raked versions)
Option 2	Intermediate	6,010	Theatre to rear
Option 3	Reduced Cost	6,202	At grade parking and retain existing library. More flexible use of Galleria space
Option 4	Sell	6,494	Sell the Site

Source : BMCC, FJMT, Urbis

We note that prior to the commissioning of this study, options for developing a community facility on another site, and selling the subject site, were canvassed. This option failed to meet the expectations and needs of the community and stakeholders and as such has not been included here as an option for detailed analysis.



Key inputs and assumption for the analysis are given in the table below:

## Table of Inputs and Assumptions

Current Value and Opportunity Cost of Land (Based on K D Wood Valuation - 6 April 2010)	\$9,700,000
Value of option 1 on Completion	\$18,150,000
Value of option 2 on Completion	\$15,190,000
Value of option 3 on Completion	\$11,830,000
Outgoings, % of capital Value	0.5%
Maintenance, % of Capital Value	1.0%
A Vacancy factor is used in estimating market rent of	4.0%
Market Rent is estimated at the following % of the Market Value of the asset	9.0%
Design Costs and Professional Fees are estimated as a % of construction cost	12.0%
Construction Contingency	15.0%
Construction Costs are detailed in the appendix, but for Option 1 are	\$18,044,200
Option 2	\$17,354,250
Option 3	\$11,038,800
Council Implementation and Project Management Costs	\$300,000
Interest Costs where applicable are	8.5%
Long Term CPI is Estimated at	2.5%
Estimated Real rate of Capital Appreciation of Land	2.5%
The Library makes 213,804 loans of books and materials per annum. (PLS)	
The long term average loss of the existing library is \$1,519,000 pa, based on Library and Council records	
Market rent for the space used by the library is estimated at \$240 per square metre per annum gross	
33% of Visitors make enquiries of Library Staff with each enquiry valued at \$5	
Electronic Databases are accessed for 14,000 hours per annum at \$3 per hour	
Computers are accessed for 3276 (PLS) hours per annum at \$3 per hour, based on internet café charges	
Visitors of 151073 (PLS) per annum use the Library as an office at \$3 per hour	
Additional activated carspaces used for non centre use half the time and have a value of \$3 per hour	
Additional External Uses of Facilities (not therefore accounted for by rent) include Markets and Childrens Play Areas	
Library books and materials which cost an average of \$23 would be re-sold second hand for 60% of value providing a net benefit of \$9 per item	
The Gallery has a patronage some 20% of that of the library and entry fees/value is \$10	
The Gallery provides a means of sale of artwork and art skills to the public valued in excess of the rental cost of 1 item per week with a gross margin/commission of \$100	
Increases in patronage of the Library as a consequence of the project is 60%	
The average percentage of the population who are members of their library is 46% (PLS), up from 35% in 1980 and down from 50% in 2000	
The State average number of loans per resident is 6.5.	
This analysis assumes that catchment residents borrow 10 items pa	

Source :Urbis

## THE OUTCOMES OF THE ECONOMIC APPRAISAL/COST BENEFIT ANALYSIS

Following our review of the site and options for development we have considered the net community benefit attributable to each of the proposals through the economic appraisal process. We provide below a summary of the analysis for discussion.



TABLE 1 – ECONOMIC APPRAISAL SUMMARY

## Economic Appraisal Summary

	Option 0 Continue as is	Option 1 Theatre to Front	Option 2 Theatre to Rear	Option 3 Reduced Development Cost
Discount Rate	7%	7%	7%	7%
PV Cost	-11,264,526	-32,351,915	-31,413,233	-23,999,937
PV Benefit	15,867,951	31,570,032	28,864,513	24,072,622
NPV	4,603,425	-781,883	-2,548,720	72,685
NPV per \$ of outlay/PV	0.409	-0.024	-0.081	0.003
BCR	1.41	0.98	0.92	1.00
IRR	10.33%	6.76%	6.18%	7.03%

Source : Urbis

The table above shows that the ‘do nothing option’ (Option 0) has a superior NPV and IRR to the other options, although we note that this is due to the facilities not being adequately sized for the needs of the community and therefore operating at relatively high levels of capacity despite its quality and condition.

Option 1, the full redevelopment option with the library to the rear, produces a negative NPV and BCR compared to Option 0 and an IRR below the adopted discount rate of 7%. This result is largely affected by the larger and more costly scale of the build.

Option 2, as mentioned above can be considered to be almost indistinguishable from Option 1 on economic and social grounds although it may not provide as much exposure and accessibility for the theatre as Option 1, thereby reducing some of the benefits slightly. This option also incorporates the raked theatre option however this is considered inferior due to the limitations it places on the operating model and hence broader community benefits.

Option 3 was developed in an effort to investigate the possibility of increasing the performance of the centre by reducing construction costs through retention of some of the existing building fabric. This option is somewhat cheaper to develop however will provide slightly lower overall community benefit. We note however that relative to the costs, this option provides an overall slight positive return whilst meeting the majority of the desired objectives of the project.

### ADDITIONAL QUALITATIVE BENEFITS

The following additional community benefits, which could not be directly quantified, are likely to be derived from the new facilities under any of the Options 1 to 4:

1. Reduction in morbidity for seniors and people with a disability resulting in reduced hospital stays by increasing cognitive activities
2. Improved employment prospects from training and education
3. Improved sense of community
4. Improved liveability
5. Improved regional amenity
6. Improved mental health outcomes
7. Improved safety
8. Reduced relative maintenance costs – a new facility
9. Improved literacy (improved employment for future generations)
10. Improved creative outcomes, originality, inventiveness and entrepreneurial behaviour

11. A more outgoing and sociable community enhancing opportunities for collaboration and synergies
12. Improved community pride and aesthetics

The existing development is somewhat dated and fails to adequately provide the appropriate support and cultural services in a functional and competitive way

## FINANCIAL APPRAISAL

Following the Economic Appraisal which assesses the options from a whole of community perspective, we assess the proposal from Councils perspective to ascertain the impact on Councils financial position. The financial appraisal assesses the influence that the preferred project Option 3 will have in relation to the Councils cash flow and its ability to meet financial obligations having regard to the levels of risk inherent in the project.

The appraisal assesses the financial performance of the preferred Option 3 and has regard to the levels of risk inherent in the project. The methodology used in the financial appraisal is discounted cash flow (DCF) modelling in accordance with the NSW Treasury Guidelines. The DCF approach discounts the forecast cash inflows (revenues) and outflows (costs) to a present value. It uses an appropriate discount rate that reflects the required rate of return on investment given the level of project risk. This assessment has adopted a 20 year time frame.

### Financial Appraisal Summary

Option 3		4%	7%	10%
PV Cost		-31,517,261	-28,478,917	-26,209,615
PV Benefit		21,780,459	13,392,213	8,541,091
NPV		-9,736,803	<b>-15,086,704</b>	-17,668,524
BCR		0.7	0.5	0.3
IRR			1.2%	
Less Funding				
Grant		9,500,000	9,500,000	9,500,000
Property Sales and/or Secured Loans (up to)		6,000,000	6,000,000	6,000,000
Net Funding Position		5,763,197	413,296	-2,168,524

Source : Urbis

The reported Net Present Value (NPV) reflects the cost of the project to Council, although it is noted that this excludes any Federal Government Capital Grants which should be deducted from the NPV. That is the cost after the grant is the negative NPV amount plus the grant.

We have then deducted the present value of identified funding sources to identify a net funding position. As can be seen, the preferred Option 3 over a 20 year provides a positive net funding position (i.e. the negative NPV of constructing and operating the facility over a 20 year period is exceeded by identified funding potential). We note that a \$200,000 per annum Section 94A contribution allocation has been included within the cashflow assessment and is included as part of the overall NPV result.

## CONCLUSION

The project involves a significant investment by Council and the community however subject to the ability of the Library to attract strong growth in patronage and the ability of the Theatre to attract regular performances and usage, Option 3 is assessed as providing a positive net benefit to the community.

# 1 INTRODUCTION

This report has been prepared in response to a proposal by the Blue Mountains City Council (BMCC) to redevelop the Springwood Community and Cultural Facilities Site. Blue Mountains City Council (BMCC) is required to prepare a Financial Analysis and Business Plan, incorporating a Risk Management Plan, and a Feasibility Assessment as part of the upgrade. This is being prepared for its own decision making purposes and to accord with the requirements of the Division of Local Government. (DLG).

## 1.1 PURPOSE AND APPROACH OF THIS REPORT

At a broad level, the project aims to accord with the strategic objectives and priorities of the Council in servicing the needs of the community.

Council has the following charter under the new Local Government Act:

- To provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively.
- To exercise community leadership.
- To exercise its functions in a manner that is consistent with and actively promotes the principles of multiculturalism.
- To promote and to provide and plan for the needs of children.
- To properly manage, develop, protect, restore, enhance and conserve the environment of the area for which it is responsible, in a manner that is consistent with and promotes the principles of ecologically sustainable development.
- To have regard to the long term and cumulative effects of its decisions.
- To bear in mind that it is the custodian and trustee of public assets and to effectively account for and manage the assets for which it is responsible.
- To facilitate the involvement of councillors, members of the public, users of facilities and services and council staff in the development, improvement and co-ordination of local government.
- To raise funds for local purposes by the fair imposition of rates, charges and fees, by income earned from investments and, when appropriate, by borrowings and grants.
- To keep the local community and the State government (and through it, the wider community) informed about its activities.
- To ensure that, in the exercise of its regulatory functions, it acts consistently and without bias, particularly where an activity of the council is affected.
- To be a responsible employer.

Source: BMCC

The project parameters have been developed in response to the need to achieve Councils' strategic objectives by identifying the optimal redevelopment option for the precinct. This will accord with Councils objectives by improving facilities and outcomes for the community of the Blue Mountains. In short the project seeks to provide appropriate services and community facilities to fulfil the objectives as set out in the first point within the Councils Charter.

The more specific purpose of this report is to provide a Financial Analysis, Business Plan and Feasibility Study which satisfies the needs of Council and the requirements of the Division of Local Government (DLG), in particular the Guidelines for Capital Expenditure.

As the report has as its focus the need to maximise outcomes for the community as a whole, the project is considered in the context of ecologically sustainable design, meaning an integration and synthesis of both social and economic parameters to produce the optimal sustainable community outcome. This is also known in short as Sustainability.

That is, as the community and cultural facilities provide both a social and economic boost to the town and the broader community it will be an important part of this report to optimise both the economic and social outcomes for the community.

## 1.2 STRUCTURE OF THE ASSESSMENT AND METHODOLOGY

In accordance with the outline developed by the Division of Local Government (DLG), Urbis has structured the assessment to broadly present an outline of the existing situation, the need, an assessment of options, the financial analysis, business and management plan and project risks. We review the methodology in more detail below.

### 1.2.1 METHODOLOGY

Urbis is aware of the importance of ensuring that public services are delivered efficiently and effectively and that they are delivered in such a way that costs are minimised and the community benefit is maximised.

We note the requirements of the Guidelines<sup>1</sup> issued by the Director General pursuant to section 23A of the local Government Act 1993. We further note from the Guidelines the need to complete a Preliminary Business Case and that Council is preparing this. Our financial analysis, modelling, business plan and feasibility assessment will integrate and build on the work done within the Preliminary Business Case and develop the rigor of the economic and financial appraisals. As outlined in our methodology, in order to ensure that the outcome of the assessment is rigorous and balanced from a social, environmental and economic perspective, in line with ecologically sustainable design (ESD) principals, we will firstly prepare an Economic Appraisal to assist all stakeholders in arriving at an optimal preferred option. This will feed into the financial model and business plan and will be an integral part of the overall feasibility assessment.

In conducting the study Urbis has:

- reviewed the work completed to date in relation to the proposal.
- undertaken a review of the literature and documentation associated with the objectives of proposal, along with other reports and documents available.
- undertaken an inspection of the site and other relevant sites in understanding issues associated with context and relative value.
- met with the Team and spoken to Council Officers to discuss the project and review initial thoughts and processes and provide initial guidance on the market and social parameters in relation to the site.
- analysed the existing built form and assess the capital and rental market value of the existing site to provide an opportunity cost and inform the analysis.
- obtained and reviewed data/information relating to;
  - Costs, including but not limited to indirect management costs (costs not included in the projects' development costs), construction and development costs, operating costs such as ongoing maintenance, outgoings and lease management costs, exemptions, details and other cost information considered relevant.
  - Benefits, including; existing uses, estimates of market rentals, selling costs.
  - Social outcomes, including increased employment and prospects, reduced morbidity, and improved education outcomes.
- Assessed development costs by reference to quantity surveying advice obtained and through our experience and research.
- Reviewed and assessed planning parameters and advice.
- Review and assess the social or social planning studies relevant to the proposal and provide advice to inform the development of sustainable options within the context of the evaluation.
- Reviewed and assess urban design work and considerations.

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<sup>1</sup> Division of Local Government Department of Premier and Cabinet, Capital Expenditure Guidelines, December 2010.

- Reviewed the concept plans in relation to user and community considerations and outcomes.

#### 1.2.1.1 ANALYSIS

- Analysis has been undertaken of the proposed built form and an assessment made of the gross realisation value. The possible residual/terminal value of the existing and proposed development(s) has also been assessed.
- Urbis has reviewed and considered the private development market and evaluated the capacity, capability and appetite of the market and community in relation to the project along with the market for the operations/businesses to be conducted from the sites.
- Urbis has further considered commercial opportunities which may have the potential to provide a revenue stream and enhance the community and cultural facilities.
- Having obtained the necessary data and inputs we have prepared an Economic Appraisal Model using an Excel based platform and entered the assessed costs and benefits to the community as a whole.
- We have considered the stakeholder management strategy in the context of the proposal.
- Following stakeholder review and discussions, we have refined and developed the EA options and analysis to obtain financial measures including NPV, IRR and BCR for each option.
- Undertaken a qualitative assessment of the options.
- Undertaken a financial appraisal of the preferred option, assessing the ability of the Client to deliver proposals.
- Prepared a Financial Impact Statement.

#### 1.2.1.2 BUSINESS PLAN

- Having considered the broader economic situation and the financial implications to Council, we look in more detail at the operation of the facility within the Business Plan.
- The Business Plan will incorporate an evaluation of markets, business structure, personnel, objectives, rationale and financial projections and provides a description of the proposed plan.
- Within the context of the Business Plan we have prepared a Risk Management Plan incorporating elements of potential risks and assessing consequences and mitigation strategies. This considers: Investment/Planning, Design, Market, Management, Reputation, Compliance, Completion, Environmental and Occupational Health risks.
- The Business Plan incorporates the funding model

## 2 PROJECT OUTLINE

### 2.1 PROJECT BACKGROUND AND INFORMATION

Springwood is an important commercial and service centre within the Lower Blue Mountains and as such appropriately incorporates a number of well utilised community and cultural facilities. This project developed in response to a perceived need, identified by BMCC, to upgrade the existing community and cultural precinct within the context of the subject site.

Among other background work, BMCC commissioned a needs analysis in 2009 which built on the existing understanding of the area. The assessment found that all services operating within Council owned facilities in Springwood are operating at capacity; all require more space (operational and storage) in order to operate more effectively. Some services are particularly constrained by the lack of space, leading to concerns about levels of service provision, the protection of client privacy, and proper storage of records and equipment. Stakeholders were strongly of the view that all major cultural and community services should be located on one site – preferably the existing Civic Centre Site. In terms of individual facilities currently located on the Civic Centre Site, it was found that enhancements and/or extensions are required to all existing buildings, or that new purpose built facilities need to be constructed within the existing or new Cultural and Community Precinct.

Consequently the project involves the development of a master plan which incorporates a feasibility assessment of the options, a financial model and business plan. It is noted that the community and cultural facility will provide both a social and economic boost to the town and the broader community. It will be an important asset to the community and enhance both economic and social outcomes.

Council has prepared a draft Preliminary Business Case and consulted widely with the community. The work prepared here will contribute to the Business Case and the report to the DLG.

#### 2.1.1 HISTORY OF THE SITE AND PROJECT

It is understood that the Council has reviewed numerous options for the site and preliminary concept options were developed by Eco Design Architects in November 2010. There has been numerous community consultation and briefing sessions held prior to and concurrent with the development of final architectural plans.

We note that prior to the commissioning of this study, options for developing a community facility on another site, and selling the subject site, were canvassed. This option failed to meet the expectations and needs of the community and stakeholders and as such has not been included here as an option for detailed analysis.

#### 2.1.2 LOCATION

The subject site is located at 104 and 108 Macquarie Road, Springwood some 71 kilometres west of the Sydney CBD, 32 kilometres east of Katoomba Town Centre and 450 metres east of Springwood Railway Station.

#### 2.1.3 PROPERTY DESCRIPTION

The existing site comprises 2 lots being of some 4,823 sq.m and 4,426 sq.m for 104 and 108 Macquarie Road respectively.



## Photos



108 Macquarie Road

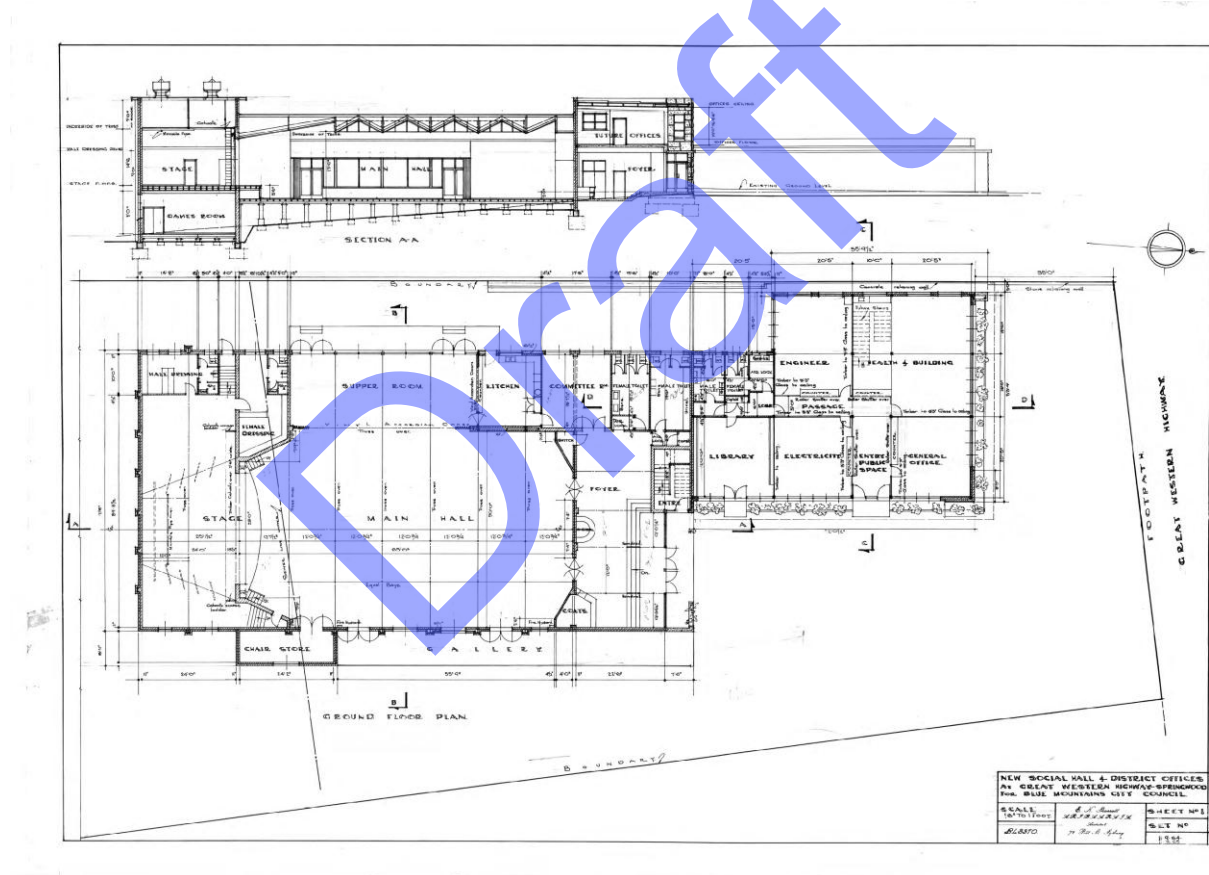


104 Macquarie Road

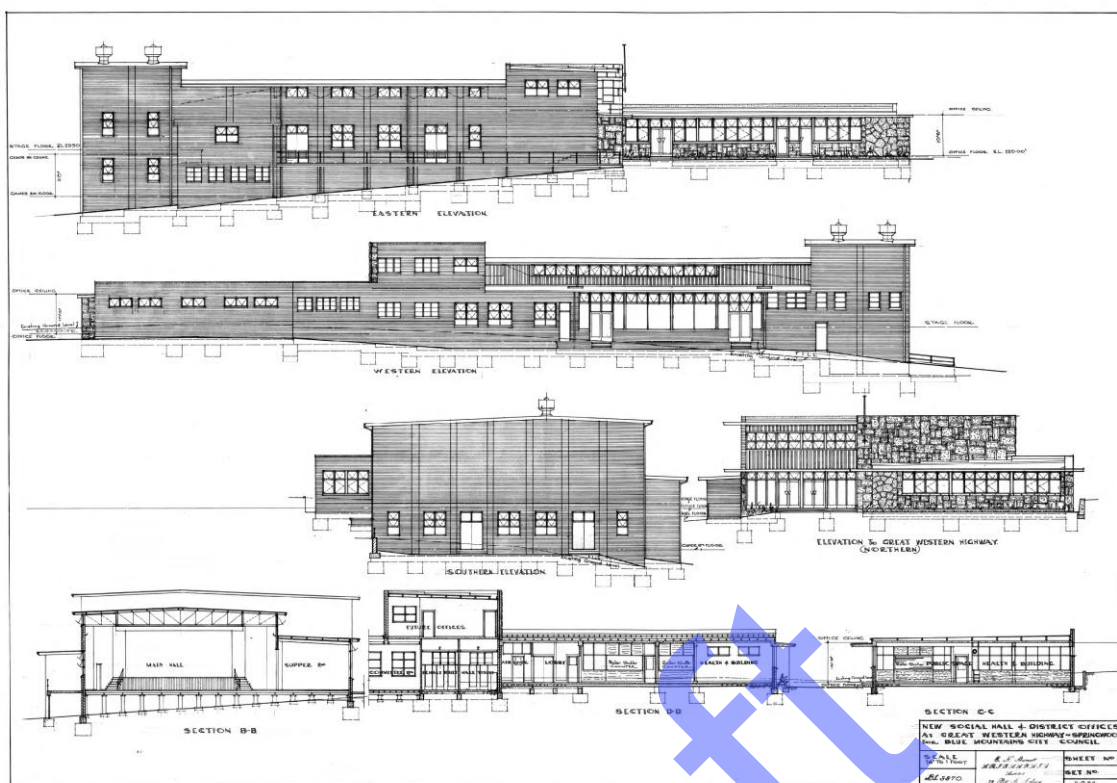
### 2.1.3.1 IMPROVEMENTS

Existing improvements incorporate the heritage listed Braemar House, some 1,405 sq.m of existing hall and civic space, a neighbourhood centre of 328 sq.m, early childhood centre of 110 sq.m, Library of 595 sq.m along with offices and basement area of 538 sq.m. The existing gross floor area (GFA) is estimated at some 2,976 sq.m.

FIGURE 1 – ORIGINAL PLAN







### 2.1.3.2 CONDITION AND FUNCTIONALITY

The condition of improvements is described as “fair to reasonable commensurate with their age” – they are understood to be structurally sound though somewhat out dated and no longer meeting community needs. We refer the reader to the Dilapidation report dated 13<sup>th</sup> October 2008 as prepared by David Hall Building Appraisals Pty Limited.

### 2.1.3.3 MAINTENANCE LIABILITY

The scope of repairs necessary to bring the improvements to an appropriate condition is considered to be aligned with basic upgrading and renovation. We note however that this does not include the cost of upgrading the existing facilities to comply with BCA requirements. This cost is likely to be significant and would be triggered by any substantial refurbishment of the existing facilities. This would trigger a significant liability for Council without resulting in any real functional change in the facilities.

### 2.1.4 MARKET VALUE

Current market value of the property is estimated in the order of **\$9,700,000**. Based on a valuation undertaken by K.D. Wood Valuations (Aust) Pty Ltd dated 6 April 2010. This valuation assessed the underlying land value at \$7,900,000 and the existing improvements at \$1,800,000. This has been adopted as the input value of the existing property within the economic and financial appraisals.

### 2.1.5 URBAN PLANNING

The site currently appears to be zoned Village Town Centre under the Blue Mountains City LEP 2005.

#### Division 2 Zone objectives

##### Village—Town Centre zone

The objectives for the Village—Town Centre zone are as follows:

- (a) To promote and consolidate the larger towns and villages within the Blue Mountains as the focus of retail, commercial, and community activity.
- (b) To promote the unique character of each of the towns and

(f) To focus large scale retailing and other higher order uses in appropriate locations within the district centres of Katoomba and Springwood.

**MAP PANEL A: ZONES, PRECINCTS AND PROVISIONS**

**LEGEND: MAP PANEL A**

**ZONES AND PRECINCTS**

VILLAGE—TOWN CENTRE	EMPLOYMENT—ENTERPRISE
VILLAGE—NEIGHBOURHOOD CENTRE	REGIONAL TRANSPORT CORRIDOR (ROAD)
VILLAGE—TOURIST	REGIONAL TRANSPORT CORRIDOR (RAIL)
VILLAGE—HOUSING	RECREATION—PRIVATE
LIVING—GENERAL	RECREATION—OPEN SPACE
LIVING—CONSERVATION	ENVIRONMENTAL PROTECTION—PRIVATE
LIVING—BUSHLAND CONSERVATION	ENVIRONMENTAL PROTECTION—OPEN SPACE
EMPLOYMENT—GENERAL	

**PROVISIONS**

ACCESSIBLE HOUSING AREA
ACQUISITION REQUIREMENT
CONSOLIDATION (CONS) REQUIREMENT
NO SUBDIVISION RESTRICTION (NS)
PROPOSED ROAD CLOSURE

**PRECINCTS**

PRECINCTS
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Source: BMCC

## 2.1.6 CLIMATE CHANGE

Consideration is given to the possibility of rising sea levels influencing the site in the longer term as per NSW Treasury EA requirements, however given the location there is not considered to be any implications. It is noted that climate change may have some long term effect on the natural environment and this may eventually impact the nature of the Blue Mountains and its attractiveness as a tourist and residential destination. This possibility however is considered distant enough not to have a material impact on the subject proposal.

### 3 THE NEED FOR THE PROJECT

The Council and Council Officers have identified the need to upgrade and improve the existing site and facilities given the dated and inefficient nature of the facilities and the opportunity to enhance the diversity and activity in the broader community. As mentioned, the Needs Assessment undertaken by Argyle Research and Training Pty. Limited found that all services operating within Council owned facilities in Springwood are operating at capacity; all require more space (operational and storage) in order to operate more effectively. Some services are particularly constrained by the lack of space, leading to concerns about levels of service provision, the protection of client privacy, and proper storage of records and equipment. Stakeholders were strongly of the view that all major cultural and community services should be located on one site – preferably the existing Civic Centre Site. In terms of individual facilities currently located on the Civic Centre Site, it was found that enhancements and/or extensions are required to all existing buildings, or that new purpose built facilities need to be constructed within the existing or new Cultural and Community Precinct.

The target population comprises the whole of the community of the Blue Mountains however more specifically the Springwood and Lower Blue Mountains area. In particular, those who are anticipated to benefit the most from the Library and learning facilities include those who are undertaking education or contemplating doing so, those who seek to work from home and those seeking work or transitioning into the workforce.

The needs have been met to date by the existing out dated and inadequate facilities. The opportunity exists to improve outcomes for the community of the Blue Mountains as a whole. Key benefits and driving factors include the changing demographics and lifestyles of the population of the Blue Mountains. Whilst forecast to remain reasonably steady in absolute numbers over coming years the population is expected to age, increasing demand for community facilities and services suitable for the aged. The existing facilities are somewhat dated and are no longer consistent with the needs of modern library and civic entertainment and function facilities. The project is consistent with the strategic objectives and programs of the BMCC

## 4 ALTERNATIVES

### 4.1 THE ALTERNATIVE PROPOSALS OR OPTIONS CONSIDERED

A number of potential options have been developed, proposed and explored. Although this document will primarily consider the two options considered most appropriate and focus in depth on the option identified as most appropriate, we will commence with a consideration of the range of options initially canvassed.

#### 4.1.1 OPTIONS CONSIDERED

A number of key parameters were instrumental in identifying the scope of the options to be evaluated. Of particular importance were the following considerations;

1. The relatively dysfunctional design of the existing buildings.
2. The unique nature of the existing location with the Heritage site.
3. The community's connection with the existing site.

In light of the considerations above the options developed included the base case, to provide a reference point, various levels of redevelopment of the site and an option including the full sale and exit.

After reviewing planning, social and urban design parameters four scenarios have been developed for analysis. These include the retention and redevelopment alternatives. The scenarios reviewed include:

TABLE 2 – OPTIONS CONSIDERED

#### Options Considered

Option	Name	Size sqm	Details
Option 0	Do Nothing	2,976	Continue to operate and manage the site as is currently done, with some minor upgrading
Option 1	Minimum	6,494	Theatre to front (includes regular and raked versions)
Option 2	Intermediate	6,010	Theatre to rear
Option 3	Reduced Cost	6,202	At grade parking and retain existing library. More flexible use of Galleria space
Option 4	Sell	6,494	Sell the Site

Source : BMCC, FJMT, Urbis

We note that prior to the commissioning of this study, options for developing a community facility on another site, and selling the subject site, were canvassed. This Option 4 failed to meet the expectations and needs of the community and stakeholders and as such has not been included here as an option for detailed analysis.

The 'do nothing' option is considered in order to provide a benchmark for the project and to provide a reference point. Whilst there is naturally the option to do nothing, the existence of a genuine community need to improve and upgrade the existing services largely precludes this as a genuine option.

Each of the development options, being Options 1 to 3 involve the redevelopment of the site at Macquarie Road in Springwood. Option 1 has fallen out of the preliminary assessment process as the option which from a functionality and design perspective was seen to achieve the most. Option 2 and then particularly Option 3, (the reduced development cost option) evolved from consultation and a need to explore further alternatives within the detailed design and feasibility process. In particular Option 3 was developed following initial concern about the capital cost of construction of Options 1 and 2. Option 3 scales back the cost of the development by utilising existing structure and also comprises an initial stage that includes a refurbishment of the existing Library only with the potential for future expansion considered as a second and later stage that could be implemented in the future as justified, thereby retaining maximum flexibility.

#### 4.1.1.1 OPTION 0 (BASE CASE)

Option 0 involves retaining the existing facilities with some minor upgrading to allow them to continue in use as they currently are.

#### 4.1.1.2 OPTION 1 (PRIMARY)

This option involves the redevelopment of the existing facilities to provide for a total of 6,494 sq.m of gross floor area. This contrasts to the existing area of just under 3,000 sq.m.

The redevelopment provides for 154 car spaces over three levels, a multi-function theatre with an elevated stage and ancillary rooms and facilities suitable for a variety of uses and productions. The theatre within this configuration may be constructed as a single level theatre or as a raked arch theatre auditorium. The stage will be equipped to suit most theatrical requirements. The design incorporates access for the disabled. The theatre itself will comprise some 566 sq.m with the centre stage and backstage areas constituting some 151 sq.m.

To the front of the theatre will be located foyer and circulation space with provision for a small retail outlet which would ideally feature a café. The theatre will be located to the western portion of the site largely fronting Macquarie Road and the Library will be situated to the eastern rear of the site. This provides for access to the library through a large foyer and galleria area which links the two facilities and will provide synergies between the library and theatre use of the café and other ancillary facilities including the community dining room, kitchen and amenities. Ideally, the café operator may have a licence to use the kitchen and community dining facilities along with the opportunity to provide for inside and alfresco seating. It is however important that the internal areas be sealed from the exterior adequately to maintain heating during winter and cooling where necessary in summer.

Where the theatre is not in hired use, during the day, it may be possible for example, to provide some form of free documentary film operation, possibly surrounding the World Heritage National Parks of the Blue Mountains. If this gained popularity and increased patronage, it may become appropriate to charge a small fee to tourists.

There is a shared reception area for the library, neighbourhood early childhood and community facilities and offices. The integration and connectivity between all of these services should be encouraged and maximised and it is envisaged that whilst the core of the library may be a quiet area, the majority of the space and space use including the flow out of the library into the galleria will be operated somewhat like a hot desk office where interaction is encouraged. Consultation with other Libraries, in particular Liverpool indicate that patrons should be allowed and encouraged to treat the Library as part of the Café and vice versa. That is, the area should be a fluid space where patrons purchase a coffee then use the library facilities or even simply access the library Wi-Fi.

Library functionality has tended to change from purely books to the provision of information services. These are derived from a variety of mediums and it is envisaged that libraries going forward will function to deliver such services which cannot be readily accessed by individuals or on a disaggregated basis. These services may include subscriptions to online services and periodicals, leading edge new technology such as high quality video conferencing and office services such as study, work areas and support facilities such as binding, quality printing and advice.

The Library shelving area comprises some 574 sq.m with other library offices and amenities comprising some 242 sq.m.



Braemar House is a heritage listed property situated to the front (north east) of the site. It is currently used and is intended for use as a Gallery. This use may be integrated with the library where possible to encourage art themed library and community groups, education and exhibitions. There is a children's play area positioned to the front of the neighbourhood centre and foyer and ideally this should be visible from the café, galleria and parts of the library and should be surrounded by a child proof fence. This will provide additional amenity for parents attending the facility.

The upper level of this design incorporates commercial offices and meeting rooms and the lower level also provides rooms for the youth centre, plant, theatre dressing and rehearsal rooms.

It is envisaged that the overall complex will benefit from substantial synergies. The Theatre should provide a centre of excellence for performing artists in the Blue Mountains and in conjunction with the Gallery and Library this may encourage the offering of Seminars and Courses in Dramatic and Fine Arts.

#### 4.1.1.3 OPTION 2 (ALTERNATE)

This option provides a mirror design to Option 1 in that the library is to the western front with the theatre to the rear and on the eastern side. The overall area is slightly less at some 6,097 sq.m. The design provides accommodation of a similar nature to Option 1 although it may not be as readily feasible to integrate the library and community functions.

This design provides an option for a level or a raked auditorium. The raked theatre will provide a higher standard for theatre productions however limits the use of the facility. As a consequence, the raked option is not considered here as a primary option on the assumption that it will provide too much of a restrictive use for the theatre space.

#### 4.1.1.4 OPTION 3 (REDUCED COST OPTION)

Option 3 involves limiting the scale of the development and maximising reuse of existing structure, primarily in an effort to reduce construction costs. The option provides for a total gross floor area of some 6,202 sq.m and allows for 151 car spaces on grade. The theatre is to the western portion of the site largely in its current position with seating for some 500 people being partly raked with the balance being retractable tiered seating on a flat floor.

Less provision is made for expansion of the library and youth centre. Future stages can be added that will see an increase in the library floorspace.

This option meets most of the objectives of the project whilst significantly reducing the development costs associated with the redevelopment. The design has also incorporated some features that improve the flexibility of space use (e.g. the separation between the theatre and galleria has been improved to incorporate sound proofing in order for a performance and function to be conducted at the same time).

#### 4.1.1.5 OPTION 4 (SELL 'AS IS' AND ACQUIRE REPLACEMENT)

This option would assume that the existing site(s) are placed up for sale as they currently stand and that an alternate site is identified and acquired. It is then assumed that the facilities which are proposed for the subject site are developed on the alternate site. This is not however considered a viable option as the community would not support it, making the new facility without patronage or community acceptance.

## 5 FINANCIAL IMPLICATIONS

This section considers the project from an Economic Appraisal or whole of community perspective and then looks in more detail at the project from a financial 'whole of life' perspective.

It is prepared with a view that it be included in a Council's long term financial plan as part of Council's Integrated Planning and Reporting framework.

We note at this point the following project parameters:

- Project costs will be managed by the Project Manager.
- Potential losses in the value of Council assets are accounted for in the Financial Appraisal Model and predominantly reflect the depreciation of the buildings. Risks associated with revenue are discussed in more detail in the business plan.
- By adopting the option which most benefits the community as a whole and managing the asset as efficiently as is practicable, Council will be seen to be discharging its obligations under its Charter with respect to the adequate, equitable and appropriate services and facilities to the community.
- The Financial Appraisal provides a long term cash flow analysis. We have also considered the funding proposed through the Commonwealth Government Grant for \$9,500,000 in addition to identified additional funding sources identified by BMCC of approximately \$6,000,000 through asset sales and/or secured loans.
- The Economic Appraisal provides a cost/benefit analysis of the options considered along with the Net Present Value, Benefit Cost Ratio and other measures for the options.

### 5.1 COSTS AND BENEFITS

Costs and benefits have been analysed using an Economic Appraisal framework.

#### 5.1.1.1 INTRODUCTION TO COST BENEFIT ANALYSIS AND ECONOMIC APPRAISALS

The economic appraisal utilises the cost benefit approach to assess all of the costs and benefits of the base case and project options from the "whole of community" or whole of economy point of view. In this particular case the boundaries of the economy selected is the nation of Australia although consideration is given to the appraisal as it would be from the perspective of the state of NSW. The economy or "whole of community" is the sum of all parties being government, government agencies, businesses, residents etc. and any third parties that may be affected by the project. The methodology selected for the economic appraisal is a cost-benefit analysis (CBA). CBA utilises the DCF method for determining the net present value of the project. Economic Appraisal differs from Financial Appraisal in that it measures costs and benefits to the community – and not just the financial costs and revenues to the financial sponsor(s). Berry et al (2003), note that costs and benefits relate to the individual, to government and to society<sup>2</sup>.

This Economic Appraisal and the Financial Appraisal has been prepared in accordance with the NSW Treasury Guidelines, in conjunction with the relevant project partners.

Market rent is the simplest method for measuring the value that the community ascribes to social assets. Other social benefits are either quantified if readily achievable or else qualified provided that these benefits do not "double count" the benefit of value as measured by market rent.

Economic Rent v Market Rent: Economic rent comprises the charge for the use of land. It is intended to represent the full charge by the land owner to the user, for the user, (lessee) being given the right to the benefits of the land. In an economy such as that in Greater Sydney, the actual market rent paid for residential property rarely represents the Economic Rent. This is the case because the property owner will have an expectation of deriving a real return from the land through capital gain. Whilst defined differently for tax and other purposes, a capital gain on property none the less represents a benefit to an owner. As a consequence of their receiving this benefit, owners do not require that tenants pay them all the money or benefit required for the owner to provide them the property. Consequently this is considered reasonable and appropriate to incorporate real capital gain within the economic model as a benefit of ownership similar to rental income, which accrues to the beneficial owner. Without the anticipated capital

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<sup>2</sup> Berry, Chamberlin, Dalton, Horn and Berman, 2003 9-12; Pinkney & Ewig, 2006 115 -118



gain, it is anticipated that market rents would be correspondingly higher, or capital values correspondingly lower.

Before quantifying the costs and benefits, an important consideration is equity. Economic appraisal and the methods it employs (cost-effectiveness and cost-benefit analysis) measure optimality rather than equity. Yet the objectives of many programs and specific projects relate as much to equity as optimality.

Methodology: As discussed this study was undertaken in consideration of the methodologies adopted for the preparation of Economic Appraisals by Treasury NSW, it also has considered methodologies for the preparation of Feasibility Studies as outlined by the Australian Property Institute. This involves the evaluation of identified potential options over the proposed investment life, along with consideration of social costs and benefits.

#### 5.1.1.2 NOTES ON ASSESSMENT OF BENEFITS AND ECONOMIC PERFORMANCE MEASURES

- Benefit Cost Ratio (BCR) = total discounted benefits divided by total discounted costs. The BCR is the ratio of the present value of benefits to the present value of costs. If the BCR is greater than one, the present value of benefits exceeds the present value of costs.
- The evaluation criteria can be defined as follows:
- Net Present Value (NPV): The NPV is the residual after subtracting the discounted (or present value) stream of costs from the discounted (or present value) stream of benefits over the life of the project or project planning period.
- Internal Rate of Return (IRR): The IRR is the discount rate at which the present value of benefits equals the present value of costs, that is, the discount rate at which the NPV equals zero.
- Consistent with Treasury Guidelines, the real discount rate used for the purpose of discounting the future cost and benefit streams is 7%. This discount rate is assumed to represent the opportunity cost of resources used and is a real rate which already takes inflation into account. This assumption has been sensitivity tested with a lower bound figure of 4% and an upper bound figure of 10%<sup>3</sup>.
- The net present value (NPV) and the benefit cost ratio (BCR), based on a 7% discount rate; and the internal rate of return (IRR) have been used to evaluate the economic worth of the proposed options.
- An option is considered viable if the NPV is greater than zero, which means the BCR is greater than one and the IRR is greater than the target IRR or discount rate

The cash flow models are provided in the Appendix and the performance indicators are summarised in the following section.

#### 5.1.1.3 INPUTS AND INVESTIGATIONS

The options addressed in this report were provided by FJMT following development in conjunction with BMCC.

##### Definition of Options to Concept Stage

- The retain option is defined by Urbis
- The redevelopment options are defined by FJMT.
- The sale and purchase option is developed by Urbis and is deduced from inputs to other options.

##### Assessment of Relative Functionality

- The assessment of relative functionality of each option has been undertaken by FJMT in conjunction with other actors in the process.

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<sup>3</sup> The choice of the appropriate discount rate can have a significant impact on the outcome of the economic appraisal. Based on the NSW Treasury Guidelines, the figure of 4% reflects the social preference rate or society's preference for current consumption of goods and services compared with consumption in the future. The figure of 7% reflects the social opportunity cost of capital involved compared to investment in the private sector. 10% represents a weighted average cost of capital for an organisation similar to the proponent. Due to the difficulty in estimating these discount rates, a selected figure of 7% is used in the base EA scenario, while 4% and 10% represent the range of sensitivity testing

### Estimates of Cost

- Cost estimates were prepared by Rider Levett Bucknall, Quantity Surveying.

### Estimates of Value

- Estimates of value for the completed options were prepared by Urbis. (It is noted that these were based on external inspections only and do not constitute a valuation).
- The current value of land and improvements has been based on the valuation prepared by K.D. Wood Valuations (Aust) Pty Ltd dated 6 April 2010. This valuation is considered to be suitable for this assessment as there is no known recent market evidence that would suggest a contrary assessment.

### Estimates of Timeframes

- Estimates of timeframes are based on typical durations for the project types involved and were estimated by Urbis in conjunction with members of the Project Team. The development phase has been estimated to last up to 2 years.

### Sourcing of Other Assessment Data

- Sources of other data include the BMCC, other Councils and Actors in the property and development market, such as local real estate agents.

### Land

- The opportunity cost of the land is detailed in the DCF Analysis and has been based on the \$9,700,000 valuation prepared by K.D. Wood Valuations (Aust) Pty Ltd. This valuation assesses that land value at \$7,900,000 and the improvements value at \$1,800,000.

### Building Lifespan:

- It is noted that buildings are generally considered to have a lifespan of approximately forty years when they are constructed. This however is a very broad assessment and as is often demonstrated by the reality of buildings in the community, some buildings are retained and remain functional for much longer than forty years with regular maintenance, whilst others are replaced in less than 40 years due to functional or economic obsolescence. The lifespan of a building is in practice a function of its level of functional and economic obsolescence. Once a building is no longer fit for purpose, or no longer the best building for a particular site, depending on the relative costs and benefits associated with replacing it, it will tend to be replaced. However, even if a building is very old, if it still functions well and can be maintained at a reasonable cost, it will tend to be retained. Many specialist buildings run the risk of having shorter lifespans, as the demand for the function or service they provide may change. If they do not suit adaptation to other uses, this poses a risk to the value of the building in the long term.

Key inputs and assumptions for the analysis are detailed in the following table.

TABLE 3 – TABLE OF INPUTS AND ASSUMPTIONS

## Table of Inputs and Assumptions

Current Value and Opportunity Cost of Land (Based on K D Wood Valuation - 6 April 2010)	\$9,700,000
Value of option 1 on Completion	\$18,150,000
Value of option 2 on Completion	\$15,190,000
Value of option 3 on Completion	\$11,830,000
Outgoings, % of capital Value	0.5%
Maintenance, % of Capital Value	1.0%
A Vacancy factor is used in estimating market rent of	4.0%
Market Rent is estimated at the following % of the Market Value of the asset	9.0%
Design Costs and Professional Fees are estimated as a % of construction cost	12.0%
Construction Contingency	15.0%
Construction Costs are detailed in the appendix, but for Option 1 are	\$18,044,200
Option 2	\$17,354,250
Option 3	\$11,038,800
Council Implementation and Project Management Costs	\$300,000
Interest Costs where applicable are	8.5%
Long Term CPI is Estimated at	2.5%
Estimated Real rate of Capital Appreciation of Land	2.5%
The Library makes 213,804 loans of books and materials per annum. (PLS)	
The long term average loss of the existing library is \$1,519,000 pa, based on Library and Council records	
Market rent for the space used by the library is estimated at \$240 per square metre per annum gross	
33% of Visitors make enquiries of Library Staff with each enquiry valued at \$5	
Electronic Databases are accessed for 14,000 hours per annum at \$3 per hour	
Computers are accessed for 3276 (PLS) hours per annum at \$3 per hour, based on internet café charges	
Visitors of 151073 (PLS) per annum use the Library as an office at \$3 per hour	
Additional activated carspaces used for non centre use half the time and have a value of \$3 per hour	
Additional External Uses of Facilities (not therefore accounted for by rent) include Markets and	
Childrens Play Areas	
Library books and materials which cost an average of \$23 would be re-sold second hand for 60% of value providing a net benefit of \$9 per item	
The Gallery has a patronage some 20% of that of the library and entry fees/value is \$10	
The Gallery provides a means of sale of artwork and art skills to the public valued in excess of the rental cost of 1 item per week with a gross margin/commission of \$100	
Increases in patronage of the Library as a consequence of the project is 60%	
The average percentage of the population who are members of their library is 46% (PLS), up from 35% in 1980 and down from 50% in 2000	
The State average number of loans per resident is 6.5.	
This analysis assumes that catchment residents borrow 10 items pa	

Source :Urbis

### 5.1.2 COSTS INFORMATION

- Planned maintenance, structural maintenance, regular (non-theatre) cleaning and repairs including outdoor space, landscape, lobby) are included in the Economic and Financial Appraisal.
- Essential and special services and inspection costs, annual reports (gas, electrical, electronics, services) are included in the Business Plan in so far as they relate to the theatre.

- Theatre and civic centre operating costs are detailed in the budget.

### 5.1.3 BENEFITS INFORMATION

- The value of the completed development options are detailed in the models, however do not constitute a valuation. It is noted that the market value assessment for each of the development options is less than the construction costs.
- Potential discounts on market rent, within the economic appraisal are ignored as these refer to transfer payments with zero net benefit to the economy.
- The asset is given a terminal (or residual) value based on escalating the opportunity cost of the land. The building is depreciated.

- Other benefits

### 5.1.4 ECONOMIC APPRAISAL SUMMARY

As discussed above, following our review of the site and options for development we consider the net community benefit attributable to each of the proposals through the economic appraisal process. The detailed analysis of the proposals can be found in the appendix however we provide below a summary of the analysis for discussion.

TABLE 4 – ECONOMIC APPRAISAL SUMMARY

#### Economic Appraisal Summary

	Option 0 Continue as is	Option 1 Theatre to Front	Option 2 Theatre to Rear	Option 3 Reduced Development Cost
Discount Rate	7%	7%	7%	7%
PV Cost	-11,264,526	-32,351,915	-31,413,233	-23,999,937
PV Benefit	15,867,951	31,570,032	28,864,513	24,072,622
NPV	4,603,425	-781,883	-2,548,720	72,685
NPV per \$ of outlay/PV	0.409	-0.024	-0.081	0.003
BCR	1.41	0.98	0.92	1.00
IRR	10.33%	6.76%	6.18%	7.03%

Source : Urbis

The table above shows that the 'do nothing option' (Option 0) has a superior NPV and IRR to the other options, although we note that this is due to the facilities not being adequately sized for the needs of the community and therefore operating at relatively high levels of capacity despite its quality and condition.

Option 1, the full redevelopment option with the library to the rear, produces a negative NPV and BCR compared to Option 0 and an IRR below the adopted discount rate of 7%. This result is largely affected by the larger and more costly scale of the build.

Option 2, as mentioned above can be considered to be almost indistinguishable from Option 1 on economic and social grounds although it may not provide as much exposure and accessibility for the theatre as Option 1, thereby reducing some of the benefits slightly. This option also incorporates the raked theatre option however this is considered inferior due to the limitations it places on the operating model and hence broader community benefits.

Option 3 was developed in an effort to investigate the possibility of increasing the performance of the centre by reducing construction costs through retention of some of the existing building fabric. This option is somewhat cheaper to develop however will provide slightly lower overall community benefit. We note however that relative to the costs, this option provides an overall slight positive return whilst meeting the majority of the desired objectives of the project.

### 5.1.5 SENSITIVITY TESTING

Consideration is given to the relative performance of the options at 10%, 7% and 4% discount rates within the model. We have also assessed the sensitivity of the outcomes to changes in the growth of the Library patronage as follows.

The base case rate of patronage increase has been based on an increase of 60% utilisation of the library based on the improved amenity offered by the new facility. This has been based on benchmarking of improvements in library utilisation tied to upgrades of libraries and community facilities in other LGA's, including the City of Sydney, Campbelltown and Liverpool. These facilities demonstrated improved visitation and utilisation as a result of redevelopments of their community facilities, generally in the order of 50% to 400% over the pre-redevelopment levels of utilisation. The Surry Hills Library in the City of Sydney experienced the highest growth estimating a growth in library visitation of 400% as a result of the library and community centre redevelopment.

Furthermore, we have also discussed the current activities and utilisation of the Springwood Library with the current library manager and the expectations of potential for uplift in utilisation as a result of the proposed changes to the facilities.

FIGURE 3 – SENSITIVITY TO CHANGES IN USAGE

#### Sensitivity of BCR and IRR to the increase in Usage

<b>Option 3</b>					
Increase in usage	20%	40%	60%	80%	100%
BCR	0.63	0.81	1.00	1.19	1.38
IRR	3.41%	5.22%	7.03%	8.83%	10.62%

Source : Urbis

It is noted that the project will only achieve a positive BCR at the prescribed discount rate of 7% where the improvement in the growth of the Library exceeds 60%.

### 5.1.6 QUALITATIVE FACTORS

It is critical to assess the potential benefit to the community of having facilities and services. This is necessarily a broad assessment based on numerous subjective views and assumptions about potential outcomes. To quantify these areas more accurately would require a longitudinal study of the social outcomes of individual programs operated through the facilities or the overall program.

The following community benefits are likely to be derived from the new facilities:

1. Reduction in morbidity for seniors and people with a disability resulting in reduced hospital stays by increasing cognitive activities
2. Improved employment prospects from training and education
3. Improved sense of community
4. Improved liveability
5. Improved regional amenity
6. Improved mental health outcomes
7. Improved safety
8. Reduced relative maintenance costs – a new facility
9. Improved literacy (improved employment for future generations)
10. Improved creative outcomes, originality, inventiveness and entrepreneurial behaviour
11. A more outgoing and sociable community enhancing opportunities for collaboration and synergies

## 12. Improved community pride and aesthetics

It is noted that the Blue Mountains has a higher portion of residents who are employed in creative and artistic fields, and therefore any improvement to arts related facilities is likely to attract a high level of interest and buy-in from the community.

The existing development is dated and fails to adequately provide the appropriate support and cultural services in a functional and competitive way. The updated facilities will allow for improvements in the environmental credentials of the built form with a significantly higher 'Green Star' rating. They will provide significantly more useable space for community groups to undertake vital community activities in a safe and healthy environment.

Broadly, industrial relations outcomes can be expected to be good, as can the social and regional impacts, safety, public relations and resource availability. Multipurpose facilities are often preferable as they make use of scarce real estate footprints. However, they are also consistent with recommended national and international good practice for social and economic sustainability; safety and cost-efficiency. For example, the Victorian Growth Areas Authority indicates that multipurpose facilities should be the preferred form of facility provision for local communities in order to achieve optimal outcomes for administrators, communities and facility operators.

The provision of a multipurpose facility will assist in achieving aims around social, economic and environmental sustainability. It could also enhance overall Council and community aims of cohesion and harmony through the diversity of community members using the facility and conducting activities. The relative population density and built environment does limit opportunities in terms of new sites for community facilities. This factor serves to reinforce the capacity of a multipurpose facility to be a genuine hub of community activity, where information sharing can freely occur and synergistic relationships are formed to generate even more community activities. The capacity for a multipurpose centre to promote intergenerational activity is also noted, and where possible, the physical situation of activities for different age cohorts should be deliberately planned for integration. So-called 'anchor' uses in multipurpose facilities, such as a Library or Theatre, are often important in establishing the primary purpose for visits, with other services or activities being ancillary or of a consequential benefit. The need for an expanded multipurpose facility to allow for the inclusion of a range of community service providers to co-locate, offer ease of access for community members, improved staff safety and amenity and potentially enjoy some cost-benefits through service coordination or shared administrative function opportunities is clear.

Generally, from an operational and funding perspective, community facilities require the development of a form of Memorandum of Understanding and the definition of partnership arrangements between Council and respective parties.

It is recommended that, in general, Council limit exclusive use rights in the facilities. The intent should be to encourage shared use of facilities on a negotiated and booked basis where possible, including for activities; service provision involving interviews or counselling; kitchen and ancillary areas and some administrative functions. Council could take the lead in this regard, for example the computer skills area of the Library could also be made available for employment and skills development training at a range of times not required for students or other user groups. This process could promote greater service provider interaction; intergenerational activity and greater community awareness about the range of activities available across user types. It could also ensure that Council has a degree of flexibility responding to new or emerging needs as these become apparent. A small number of exclusive use licenses may be considered desirable as offices for certain service providers and/or commercial activities which may act as attractors for a multi-purpose facility. Where Council exercises these licenses, it is recommended that the areas thus provided are strictly limited to the functional area required for optimal operation, with insistence on shared use of all other space (including interview, counselling, administration and ancillary spaces as described above). For general use, lockable storage cupboards could be provided to user groups for records/materials which need to remain on site.

While access and equity are generally requirements in relation to community facilities, the importance of community facilities being affordable is paramount. Similarly, the somewhat higher proportion of residents with a disability underscores the importance of accessible facilities.

The qualitative measures suggest that Options 1 to 4 will provide a general improvement in all of these measures, with the larger development Options 1 and 2 providing a marginally higher degree of benefit;



however we note that the risk of achieving these benefits is outweighed by the lower development delivery risk associated with Option 3.

### 5.1.7 ASSESSED NET BENEFITS AND RECOMMENDATION

The IRR's shown provide higher returns for Option 3 than for the other development options. The alternate site option does not meet community and stakeholder expectations and therefore has not been assessed.

Option 0, the do nothing option provides a high overall return, however does nothing to address the ongoing shortage of community facility space in Springwood. As such this is also considered to be an inferior option and could be further discounted if the lost opportunity to meet current and future community needs was factored into the assessment of Option 0.

As such Option 3 is considered the preferable of the options considered.

## 5.2 FINANCIAL APPRAISAL

This section sets out the results of the financial appraisal undertaken to assess the financial viability of the project. The financial appraisal assesses the influence that the project option will have in relation to the Council's cash flow and its ability to meet financial obligations having regard to the levels of risk inherent in the project.

The appraisal assesses the financial performance of the preferred option and has regard to the levels of risk inherent in the project. The methodology used in the financial appraisal is discounted cash flow (DCF) modelling in accordance with the NSW Treasury Guidelines.

The DCF approach discounts the forecast cash inflows (revenues) and outflows (costs) to a present value. It uses an appropriate discount rate that reflects the required rate of return on investment given the level of project risk. Differing from the Economic Appraisal, Financial Appraisal utilises nominal as opposed to real costs and benefits and therefore takes into consideration the effects of price inflation over time. This differential approach explains the differences in the NPV calculations for comparable items in the Economic and Financial Appraisals.

### 5.2.1.1 INVESTIGATIONS, DATA AND INPUTS

The investigations, data and inputs are consistent with those for the economic appraisal, except where specified. As suggested above, the principal variations will be in relation to the adoption of actual cash flows (actual rent and actual anticipated costs) rather than economic costs and benefits to the community as a whole.

**Financing:** The project is assumed to be financed by the Council at a cost of funds reflected by the adopted discount rate. We note that the funding will include a Commonwealth Government Grant of \$9.5 million and Council allocated funding of approximately \$6 million through a combination of asset sales and secured loans.

**Section 94A:** It is assumed that the development will trigger a right by Council to raise Section 94A contributions, however it is noted that the quantum of this right will far outweigh the actual levies raised or able to be raised and therefore will only contribute a portion of the total funding. This amount has been advised by Council of approximately \$200,000 to \$300,000 pa. We have adopted the lower end of this range and this amount has been included in the financial appraisal.

**Inflation:** All operating costs and revenues increase with CPI assumed at 2.5% per annum.

**Discount Rate:** A discount rate of 7% was selected for the financial appraisal. This reflects the typical cost of capital for a public infrastructure provider.



## 5.2.1.2 FINANCIAL APPRAISAL RESULTS

TABLE 5 – FINANCIAL APPRAISAL SUMMARY OF OPTIONS

### Financial Appraisal Summary

Option 3	4%	7%	10%
PV Cost	-31,517,261	-28,478,917	-26,209,615
PV Benefit	21,780,459	13,392,213	8,541,091
NPV	-9,736,803	<b>-15,086,704</b>	-17,668,524
BCR	0.7	0.5	0.3
IRR		1.2%	
Less Funding			
Grant	9,500,000	9,500,000	9,500,000
Property Sales and/or Secured Loans (up to)	6,000,000	6,000,000	6,000,000
Net Funding Position	5,763,197	413,296	-2,168,524

Source : Urbis

All options would require some level of upfront capital funding from Council. Option 3, which is considered in this assessment involves Council undertaking the redevelopment of the site then operating it as a Council business, although not operating as an event promoter.

Whilst it is not envisaged that rent will formally be paid by the theatre or other community uses to Council, any profit would be considered a proxy for rent up to the point that it might exceed what would otherwise be market rent. To the extent that Council operates from the commercial office space, the assumption is made that Council would pay the “hypothetical” site project a market rent. This is done given that Council would otherwise be required to pay rent to use other commercial facilities if this facility did not exist.

The Financial Appraisal incorporates the outcome of the business plan budget to provide a consolidated estimate of the NPV of the Project to Council. As can be seen from the above summary, the NPV is significantly negative at the usual public sector discount rate of 7%. This is a function of the significant capital cost associated with redevelopment and ongoing operating deficit expected compared to the expected return on capital.

We do note however that based on expected funding, incorporating the Commonwealth Government Grant of \$9,500,000 and Council sourced funding through proposed asset sales and secured loans would result in a slight positive net funding position over the 20 year period of the Financial Appraisal.

## 5.3 TECHNICAL STANDARDS AND LEGISLATIVE REQUIREMENTS

This report relies on the master plan work of FJMT and incorporates as a key assumption that the proposed concepts comply with all relevant planning and building regulations. Further, it is acknowledged and assumed that the concepts have been developed in consultation with stakeholders and after reference to all relevant precedents in relation to design and function.

## 5.4 STAKEHOLDER CONSULTATION STRATEGY

A Stakeholder Consultation Strategy was developed to provide an overall approach and recommendations for Council to adopt in communicating and involving the local community and key stakeholders in the project. Stakeholders include; Local Councillors, local businesses, Council Officers and prospective users of the facilities. For further details on Consultation, please refer to the Community Consultation and Stakeholder Plan prepared by Council.

## 6 BUSINESS PLAN

### 6.1 INTRODUCTION

The business plan considers the operation of the theatre facility on the site following the completion of the development and the handover of the facility. It is intended to be considered concurrently with the balance of this study and both feeds into the work completed up to this point along with drawing from it.

### 6.2 THE OBJECTIVES

The objective of the Business Plan is to support the ongoing management and conservation of the facility. These objectives are consistent with community service obligations and will maximize the benefit to government and the community as a whole.

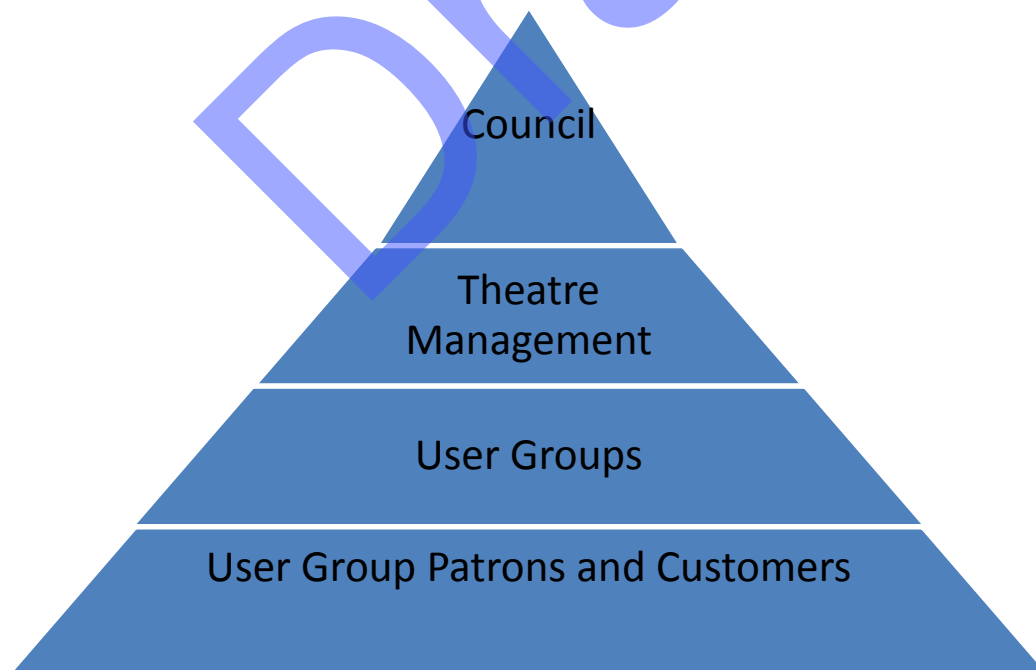
### 6.3 THE BUSINESS MODEL

As discussed above, business opportunities and hence the model for the site predominantly revolve the operation of the Theatre as a sub-regional theatre.

The theatre is expected to be operated as a Council facility enterprise wherein Council acts as owner and operator of the facility, however not specifically as a theatre and theatre production promoter. In simple terms Council acts as a Landlord and hires the facilities to users.

This being said, it is further anticipated that Council's Theatre Management will act to promote and operate the venue in such a way as to maximise its usage, occupancy, vibrancy and contribution to the community.

FIGURE 4 – FLOWCHART OF BUSINESS MODEL



The management should build relationships with core user groups who may both put on productions along with catering for them. That is, the user group would book the theatre, sell tickets to the production then put on the production. It may be that ticket sales would be available through the library along with through other means, including the venue web site and, where relevant, ticket agents. The Theatre Management would provide core services required for most productions and events such as an Event Co-ordinator and Technical Operator. It is envisaged that all other services would be provided on a contract

basis, however it is likely that the café owner/operator may have substantial economies of scale in being able to cater for most functions.

#### 6.3.1.1 KEY USES

Key uses may be categorised into the following broad groups;

- Performances
- Functions
- Meetings
- Community groups and activities

Performances may include theatrical performances, professional, semi professional and amateur concerts including highly staged events and one man shows. Productions may include theatre, dance music, musicals and comedies. They could also potentially include interactive documentary and educational film presentations such perhaps including one focussed on the environmental significance of the Blue Mountains as a draw card for tourists into Springwood.

Functions may include weddings and wedding receptions, corporate functions and meetings, school and sporting and education group presentations.

The theatre venue may also be used for larger group meetings or subdivided where possible for use during the day by local businesses and groups to hold ad hoc meetings and mini conferences. This could also apply to community groups that hold activities within the facility (e.g. use of the dining room for community dinners).

The specific market and key potential users are discussed in more detail below.

#### 6.3.2 MANAGEMENT

It is envisaged that the Theatre will be managed by an experienced theatre manager with the assistance of an event or front of house co-ordinator, one of who would be on duty during all events. An appropriate technical co-ordinator will also be necessary to manage and operate the theatres facilities. Additional staff may be necessary depending on patronage levels and to support the above staff on a casual basis. It is envisaged that volunteers may be recruited to assist with productions in exchange for their having access to the productions and facilities

##### 6.3.2.1 KEY PERSONNEL

**Theatre Manager:** The Theatre Manager would have ultimate responsibility for the performance of the theatre as a venue. He or She will ideally have extensive experience in the management and operation of a similar facility or venue. This ideally will include experience managing a theatre but also an entertainment or function centre. The key attributes of the Manager, beyond a knowledge of basic theatre or function centre management will be the personality experience and ability, and possibly existing relationships, to promote the venue. This may require them to both develop and disseminate marketing collateral along with actively prospecting potential users. Business development skills and experience would be highly desirable. Whilst the Manager may have an interest in the Theatre, it is important that they are focussed on helping user groups make the most of the facilities and promoting the venue rather than being concerned with the specific productions. This role may be shared with other Council run facilities within the Blue Mountains.

**Events Co-Ordinator:** The Event or Front of House Co-Ordinator would be responsible for the day to day organisation and facilitation of events. This person and their services in effect come with the venue hire and they would undertake all tasks necessary to ensure the venue is prepared for events. They would assist the users with event promotion and organisation and attend all events to liaise with users and ensure their experience and that of the patrons is of the highest standard. Ideally they would also be the Licensee for bar operations during wet events and able to assist and fill in for both the Manager and Technical Co-Ordinator. This person will need to be highly organised with an eye for detail, however also have an outgoing, friendly and professional personality. They may have experience in theatre or venue operation however if the Manager has sufficient experience it is more important that the person have organisational skills, possibly in a similar position or even as an office manager.

**Technical Co-Ordinator:** The Technical Co-Ordinator will be primarily responsible for all technology and functionality within the facility from lighting and audio visual facilities, to staging, rigging, flying systems, seating, computer facilities and interactivity. The Technical Co-Ordinator would need to set up where

required for events and instruct users as appropriate in the operation of facilities. This could be a contract position or alternative shared with other with other Council run facilities within the Blue Mountains.

**Theatre Assistant:** If possible it would be ideal to employ a person who can assist and back up each of the above staff in their roles, in particular to allow for staff to have time off in lieu of what may be expected to be a predominance of shift work. This relatively junior role may assist with event setup and venue cleaning and presentation during the day. This person would ideally have as many of the above skills and abilities as possible, with a focus on being able to assist with events and technical support. They would potentially have experience in an events environment and have some knowledge of the operation of audio visual and staging equipment. This could be a contract position or alternative shared with other with other Council run facilities within the Blue Mountains.

**Other Part Time and Casual Staff:** Other staff may be employed on a part time or casual basis, in particular to cover after hours periods, holidays, illnesses or large functions. Contract or casual cleaners would be employed to clean up after events and this cost included as an addition where possible and appropriate to event charges. It is considered important to maintain a small stable of casual employees who have some skills in theatre operations in order to be able to fill roles during planned and during unplanned staff absences.

### 6.3.3 MARKET

The market for the theatre is considered to be both the local community of the Blue Mountains and parts of Penrith, along with a broader potential market comprising tourists. More specifically, the market may include;

- Members of the local performing arts groups
- School Groups and Educational Institutions
- Cultural and performance groups
- Performing Arts enthusiasts
- Those with an interest in or who may be encouraged from all generational cohorts including;
  - Seniors
  - Baby Boomers
  - Gen X
  - Young families
  - Gen Y
  - Young professionals
  - Youth
  - Children.

Marketing approaches and efforts may be directed to prospective users such as

- Existing venue users
- Managers of local and regional businesses
- Clubs and associations
- Professional and industry organisations
- Professional event organisers and planners
- Government Departments, in particular the Office of Environment and Heritage
- The Chamber of Commerce
- Commercial Promoters and Touring Show Operators

The marketing and promotion of the Theatre will tend to be more effective if it is appropriately positioned and has an appropriate identity. This may revolve around its location within the Blue Mountains and the World Heritage Area, providing a cultural experience with an environmental edge. The message should highlight the theatre as being crisp, modern, exciting, edgy, innovative, green, professional and unique.

### 6.3.4 KEYS TO SUCCESS

The key to the success of the facility will revolve around the ability of the management to create a vibrant active environment where patrons can enjoy a unique, value for money experience. This will ensure organisations and groups select Springwood as the location for their production and or event.

To achieve this the venue will need to establish a unique position in the market for a range of events including all forms of theatrical performances, trade events, meetings, award nights, weddings and live entertainment.

The facilities will need to be modern and functional and include a range of options for users such as various catering options, including a bar when necessary. Staff will need to be well trained, professional and friendly. Hirers will need to be offered promotional support, which may occur in conjunction with the library. Caution will need to be taken to ensure various uses which may not be compatible are managed.

Other key elements to success include:

- Experienced management and staff
- A recognisable brand and market position
- Clean, Crisp and Professional Operations
- A regular program of events

### 6.3.5 STAKEHOLDERS

Stakeholders include; Local Councillors, local businesses, Council Officers and prospective users of the facilities. It is understood Council has prepared a comprehensive stakeholder management plan.

### 6.3.6 SERVICES AND FACILITIES

Theatre Services and facilities are to include;

- A 664 sq.m, 500+ seat theatre, with tiered seating available through retractable seating
- Wheelchair accessibility
- Theatre foyer and circulation space
- Modern lighting, sound and audio visual technology
- Dressing and rehearsal rooms
- Car parking for 150 cars
- Galleria and Foyer with potential for a Café and food outlet
- Community Dining Room and commercial kitchen
- Library
- Council offices and reception
- Braemar House Art Gallery
- Early Childhood Health Centre
- Multi-purpose room
- Suitable public amenities

### 6.3.7 HEALTH AND SAFETY

The theatre is designed to maximise the health and safety outcomes for staff and patrons. The new facilities will naturally comply with all current BCA design requirements. Key issues of consideration will revolve around the operation of the facilities and the safety of staff and users whilst setting up and dismantling for productions. Key elements to ensuring health and safety will include;

- Adequate training in the use of equipment and facilities
- Not over loading or operating facilities outside their safe working limits
- Ensuring the responsible service of alcohol
- Ensuring the safe ingress and egress of patrons, particularly after events and at night

We note that the proposed facilities under Option 3 will meet current BCA requirements including improved disabled access which will be a significant improvement on the current situation.

### 6.3.8 FINANCIAL PLAN AND BUDGET

The capital costs of the Business are detailed in the economic model and comprise the present value of the development costs.

The estimated revenues and costs associated with the operation of the Theatre are now considered.

## Theatre Business Plan Budget Estimates

### Revenue

	Daily Tarrif	Occupancy Days/Nights pa	Revenue / Costs	Revenue / Costs (optimistic revenue +25%)
Theatre Performances , User Fees and Charges*	2,000	125	250,000	312,500
Kitchen and Bar Licence Hire: for Theatre and Other Events	500	125	62,500	78,125
Theatre and Dining Room Daytime Hire - Meetings, Exhibitions, Breakfasts	800	200	160,000	200,000
Galleria: Weddings, Parties and Other (concurrent with theatre use)	400	50	20,000	25,000
Dining Room and Other meetings	50	100	5,000	6,250
Rental Income - Full Time Café, etc (Included in Council Income in FA)			37,500	46,875
Total Revenue		500	<b>535,000</b>	<b>668,750</b>

### Expenses

Cost of Sales				
Direct Wages	Front OH Co-Ord - 6 Hrs for each theatre event	22,500		
Cleaning after events		12,500		
Materials, Contractors and Consumables (all events)		13,000	48,000	48,000
Operating Expenses				
Advertising & marketing			30,000	30,000
Admin General			12,500	12,500
Electricity/Utilities			70,000	70,000
Equipment Maintenance			10,000	10,000
Fees & subscriptions			1,000	1,000
Insurance			47,500	47,500
Wages - Management & Admin (net of direct costs)			305,000	305,000
Management and Admin, H/office/indirect			50,000	50,000
Staff Training			5,000	5,000
Motor Vehicles/Travel			5,000	5,000
Printing and Stationery			2,000	2,000
Repairs and Maintenance			45,000	45,000
Security			5,000	5,000
Sundry				
Total Expenses			<b>\$636,000</b>	<b>\$636,000</b>
Net Profit/Loss			<b>-\$101,000</b>	<b>\$32,750</b>

The following staff have been assumed.

### Theatre Staff

Manager	120000
Front of House Co-Ordinator	60000
Technical Co-Ordinator	60000
Theatre Assistant	40000
Casual/Part Time Operations, Admin, Bookings	20000
Casual	20000
Casual Cleaning Staff	20000
Total	<b>340000</b>

Operating revenue and costs have been based on a review of the current operations of the existing theatre as well as benchmarking against other theatre facilities in regional NSW. This facility information has been based on information obtained from theatre managers in Council operated facilities in:

- Bathurst
- Wagga Wagga
- Orange
- Queanbeyan
- Dubbo
- Newcastle

## 6.4 THE COMPATIBILITY OF THE OPTIONS WITH SERVICE AND GOVERNMENT POLICY AND PLANS OF MANAGEMENT

The potential operations of the Theatre have been considered against the Councils Charter and in particular its obligation to provide *“adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively.”*

## 6.5 SWOT ANALYSIS

In assessing whether a business opportunity is likely to succeed it is appropriate to undertake an analysis of the strengths, weaknesses, opportunities and threats of the proposal or opportunity. This provides an overview of the key strengths and weaknesses and the threats and opportunities that are likely to determine the fate of the opportunity or which are essential for its success. It is not intended to be exhaustive or to address all issues but is helpful in gaining a broad understanding of the competing issues associated with a proposal.

Element	Details
Strengths	Only venue in Lower Blue Mountains New Theatre with modern facilities and flexible seating configurations Professional and Knowledgeable Staff Strong, vibrant brand Proximity to World Heritage Area Links with other functions, Library and Community Potential for Café on site Multi-functionality
Weaknesses	Proximity to library and potential for conflicting uses (e.g. noise affecting library patrons) Dispersed market and population
Opportunities	To develop a unique, boutique, vibrant facility Cross promotion with other attractions in the Blue Mountains Cross promotion with Library and Schools
Threats	The Joan Sutherland Performing Arts Centre in Penrith Continued growing competition from other forms of entertainment

## 6.6 FUNDING MODEL

We understand that Council has secured a Commonwealth Government Grant for \$9.5 million. In addition, Council have also identified additional funding of approximately \$6 million through a range of sources, primarily including asset sales. As such, the total capital funding equates to approximately \$15.5 million which exceeds the projected development costs that are estimated at \$14.3 million and the NPV of the Financial Appraisal that estimates a total project costs over a 20 year period of \$15.1 million. As such the proposed capital funding would appear to provide a slight surplus over the anticipated capital requirements.



The following is an extract of a proposed Council resolution that sets out the approach to funding the additional capital required to meet the additional funding requirement over the Commonwealth Government Grant. This resolution relates to a Capital Funding Report prepared by BMCC staff.

1. *That the Council note the content of this report and endorses the funding strategy outlined in this report to provide \$6,000,000 (six million dollars) funding for the implementation of Stage 1 of Master Plan for the upgrade of Springwood Community and Cultural Facilities;*
2. *That the S94A Plan is now revised to identify the Springwood facilities upgrade project as a beneficiary of the Plan;*
3. *That the Council proceeds to dispose of investment properties identified in this report noting that any property sales are reported back to the Council prior to sale;*
4. *That the Council enters into negotiations with the NSW Government Crown Land Division for the possible sale of Crown Land at 169-171 Macquarie Road, Springwood, with the objective that any sale proceeds are utilised toward the Springwood facilities upgrade program;*
5. *That a further report comes back to the Council with a project plan for the sub-division of developable land in Hat Hill Road;*
6. *That grand funding options continue to be pursued; and*
7. *That the Council agrees in principle that loan funding for the Springwood facilities upgrade project is considered as a last resort following the vigorous pursuit of all other available funding options.*

## 7 RISK MANAGEMENT

The risk management plan outlined here should be read in conjunction with the rest of this report and should be reviewed, updated and amended as and when required during the development of the project.

### 7.1 RISKS

The following provides a broad outline of risk categories, following which we produce a more detailed table of risks.

#### 7.1.1 INVESTMENT/PLANNING RISK

Investment/planning risk relates to the quality of the planning that has contributed to the project. It can help to identify critical issues that may not have been considered as part of the planning process or potential costs and benefits that have been incorrectly estimated. There is also the risk that community needs have been misunderstood or that the services to be delivered by the project will not meet needs or expectations.

Investment and planning risk is addressed through the detailed project development process and management. The risks relate to the pre-approval process and funding of the project.

#### 7.1.2 DESIGN RISK

Design risk relates to the level of complexity of the project, the extent to which proven technology will be used to achieve the projects aims and the realism associated with the time period estimated for completion. External approvals risk relates to issues associated with obtaining approval for the proposal to proceed including public consultation, planning approval, environmental approvals and heritage approvals.

Design risk in relation to the project is reasonably substantial, given the technical operations and standards required of the facility, particularly the theatre. Design risk will be managed through a process of comprehensive design management integrated with the planning of the overall long term site operation. It may be appropriate to obtain independent advice in relation to the design once completed, to provide a per review by a suitable architect to help ensure all design risks are identified.

#### 7.1.3 DEMAND/MARKET RISK

The demand or market risk relates to whether there is sufficient demand for the proposed project in order for it to succeed as planned or that the proposed costs and method of operation may adversely affect demand.

Demand and market risk to date have been assessed by consideration of the operations of other facilities and the potential market for the subject facility. As part of the Project Development process, potential users have been consulted, however a specific survey of anticipated demand/bookings should the preferred option go ahead, would be prudent in assessing and 'testing' market risk.

Given that Theatres in other locations operate at a significant loss, the principal risk is that the portion of construction cost for this facility be written off should the demand and perceived community benefits not materialise.

#### 7.1.4 MANAGEMENT/OPERATIONS RISK

Management risk relates to the role management plays in ensuring that the investment delivers the expected outcomes. Where the management team named in the proposal has no experience in dealing with similar projects, this increases the risk and lessens the likelihood of success.

It is envisaged that the development phase of the project will be managed by Council Officers however a suitably experienced independent Project Management firm may be appropriate where Council does not have experience in managing construction projects. Following completion and handover, it is envisaged

that Council will have the necessary experience with some human resources support to manage the operations. That is, it is anticipated that Council will employ experienced staff to manage the theatre and continue to employ or deploy suitably experienced staff to manage the library and other facilities. Naturally the selection of the Theatre Manager will be a key appointment and it is recommended that the Manager of another successful Council owned theatre be on the selection panel and report independently to Councillors on their recommendation.

Operations risk relates to the operational problems that may occur if the project is not planned and managed correctly. As part of the assessment of operations risk, Council should also consider whether it has adequate insurance coverage for the project and whether or not it has obtained adequate legal advice, if necessary for the project to be delivered.

It is envisaged that the operations of the Library will continue in accordance with existing and well understood and documented procedures, however the safe and effective operation of the Galleria area which links all of the services, is considered to be an area of challenge. Broadly, it will be necessary to ensure that there are very strong lines of communication between the Theatre Management and the Library and other facilities management. It is anticipated that the Library Manager should ideally fill the role of Manager of Community Services and Facilities and hence have jurisdiction and oversight over these areas such that activities can be suitably co-ordinated. Therefore, the Library and Facilities Manager will be senior to the Theatre Manager where the overall facility is concerned, however between these two managers they will have responsibility for all activities of the whole facility. Therefore, if a wedding is to be held at a particular time which may conflict with a community health centre event, there will be one point of responsibility for decision as to what action to take. Naturally controversial decisions may be escalated if necessary through the Council Management structure to the General Manager for a final decision if necessary.

#### 7.1.5 REPUTATION RISK

Reputation risk looks at issues relating to council's reputation being affected if the project is not completed or does not meet its targets or the expectation of the community. Other issues to be considered as part of this analysis could include such things as cost overrun, time over run, impractical designs and looking closely at council's community consultation to ensure the project is supported by the community and wider public. As part of the development of the project, Council has consulted widely and explored numerous and extensive options. It is anticipated that the Preliminary Business Case, Stakeholder and Community Communications Strategy and other Council Project Development activities will draw out the community expectations, along with Council's broader obligations. On completion of this project the risk table should be updated to include the community expectations, the risks of not meeting these and mitigation strategies. Ensuring that the community is both informed and enjoined in the development will be a key part of its success. That is, the business model involves promoting the facility as being a part of the community and hence community members should feel a sense of ownership and hence responsibility for its success or otherwise.

#### 7.1.6 COMPLIANCE RISK

Compliance risk relates to the risk that the project fails to comply with any relevant regulations, legislation or policies, e.g. planning, heritage or environmental.

It is anticipated that the project development phase will employ suitably qualified professionals in built form planning and design such that all appropriate planning, design and building regulations will be complied with. This may include independent planning advice to Council to ensure Council has complied with its own and with the State Government planning framework. Federal, State, and Local Government Policies to be complied with should be audited by a suitably qualified and experienced probity advisor prior to finalising the outcome.

#### 7.1.7 COMPLETION/CONSTRUCTION RISK

The completion/construction risk relates to the risk that the proposed project will not be completed in accordance with the specifications and within the stipulated timeframe and/or budget. In assessing such a risk, consideration will need to be given to the potential external and financial impacts of such outcomes. Council has contracted and will contract suitably qualified Architects, Quantity Surveyors, Builders and other professionals to ensure the project is delivered in accordance with its specifications. Specific

construction risks include those relating to the site, the building fabric, site safety, site interfaces (with neighbours etc.) and construction delays.

### 7.1.8 ENVIRONMENTAL RISK

Environmental risk refers to the impact of the proposal on the environment and will encompass the criteria previously considered. Such issues as site contamination and impacts on the physical environment will be managed through preliminary site investigations such as geotechnical reports and surveys, with the social environment addressed through community consultation measures including the project web site and newsletters.

### 7.1.9 OCCUPATIONAL HEALTH AND SAFETY RISK

All occupation health and safety issues need to be considered such as construction material, noise and site safety.

### 7.1.10 OTHER RISKS

Other proposal implementation risks not identified under the above headings include extra-project risks that may impact the project such as the dissolution of Council, removal of funding during construction and such events as war or civil unrest.

## 7.2 STRATEGY AND IMPLEMENTATION

This section documents the benefits realisation methodology to be adopted, describes the benefit to be achieved, provides a set of KPIs that identify performance measure or service level before and after the service change and identifies target date(s) for the objectives and or benefit to be implemented or realised.

The implementation strategy broadly reflects the process through which the project has moved and needs to move to reach an equilibrium operational level. In short to achieve a stable level of operation that is sustainable in the long term.

This period can be broken into four broad phases, being project development, built form then business development and then operation. This discussion begins on the assumption that a decision has been made and necessary authority approvals have been attained to proceed with the project.

### 7.2.1 IMPLEMENTATION PROCESS

The following is a list of implementation actions that will be followed to achieve the project objectives.

1. Council Resolution to proceed
2. Appropriate DLG approval
3. Confirm Project Control Group
4. Confirm funding and funding approval
5. Establish Project Web Site
6. Prepare Tender Documentation
7. Let Tender
8. Commence Construction
9. Handover
10. Employ Theatre Staff
11. Implement on Completion Marketing Program
12. Official Facility Opening
13. Ongoing Management Meetings

### 7.2.2 BENEFITS REALISATION METHODS AND BENEFITS TO BE ACHIEVED

The method of achieving the benefits of the project are discussed through the report and business plan as a whole however the focus is on developing a vibrant and active mixed use community facility which is adopted by the community and becomes a hub of cultural activity and community identity.

The key benefits will be to activate the broader community to live more active, connected, vibrant and creative lives, contributing to the wellbeing of the immediate and broader society.

More specifically, the benefits may be measured, in part, by the key performance indicators (KPI's) listed below.

#### 7.2.3 KEY OUTCOMES, KPI'S

- Theatre and event bookings exceed 500 sessions per year within 3 years
- Increase in Library patronage of in excess of 60% within 3 years of opening

#### 7.3 INTER-AGENCY RELATIONSHIPS

Agencies directly and indirectly affected by this proposal include, Blue Mountains City Council, Division of Local Government and NSW Treasury. The Council Project Manager is anticipated to form the link between these parties.

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## 8 PROBITY PLAN AND TENDER EVALUATION

### 8.1 PROJECT GOVERNANCE AND PROCUREMENT

Project Governance will be managed by the Council Project manager, and a detailed plan incorporated in the Business Case. It is anticipated here that this plan will be reviewed and informed by an independent probity advisor, given the potential for conflict in the planning and approval process.

It is envisaged that the construction contract will be let following an open competitive tender process, however given the specialist nature of the project it would be appropriate to call for expressions of interest prior to this to gauge market depth and capability. Should the outcome of the tender process vary significantly from the assumption this report, the report should be referred for comment and where necessary revision.

## 9 CONCLUSION

As a consequence, to achieve the objective of maximising community wellbeing, both social and economic **it is recommended that Option 3 be progressed.**

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## 10 Disclaimer

This report is for the confidential use only of the party to whom it is addressed (the client) for the specific purposes to which it refers. We disclaim any responsibility to any third party acting upon or using the whole or part of its contents or reference thereto that may be published in any document, statement or circular or in any communication with third parties without prior written approval of the form and content in which it will appear.

This report and its attached appendices are based on estimates, assumptions and information sourced and referenced by the author and its sub consultants. We present these estimates and assumptions as a basis for the reader's interpretation and analysis. With respect to forecasts we do not present them as results that will actually be achieved. We rely upon the interpretation of the reader to judge for themselves the likelihood of whether these projections can be achieved or not.

As is customary, in a report of this nature, while all possible care has been taken by the authors to prepare the attached financial models from the best information available at the time of writing, it has been necessary to make various assumptions and rely on verbal and unverifiable information. No responsibility can be taken for errors or inaccuracies that may have occurred both with the programming or the financial projections and their assumptions.

This report itself does not constitute a valuation of any property or interest in property. In preparing this report we have relied upon information concerning the subject property and/or proposed development provided by the client and we have not independently verified this information excepted where noted in this report.

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## Appendix A

## Economic Assessment and Financial Assessment Workings

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