

# PUBLIC NOTICE

## Special Council Meeting

7pm Monday 15 March 2021

### South Perth RAF Peer Review (public summary)

Council endorsed the RAF Business Case documents (Project Definition Plan and Operational Feasibility Report) at the November 2020 meeting, subject to an independent review.

The City engaged Deloitte and Warren Green Consulting (WGC) to conduct the review.

The Peer Review has been completed and the findings presented to Council. The review found that there are no 'fundamental barriers' to the RAF project progressing to the next stage.

Council will consider whether to endorse the findings of the Peer Review at the Special Council Meeting on 15 March 2021. The Peer Review is commercial in confidence, however, the City has agreed with Deloitte that a summary of the review findings can be publicly released.

The summary report can be found attached.



**South Perth RAF  
Peer Review (public summary)**

City of South Perth

Given the RAF is at a concept stage, this Review has not identified any fundamental barriers that would prevent the project from progressing to the next stage.

The findings highlight areas of further development for the RAF, which would typically be addressed in a Treasury business case.

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# What is the RAF?

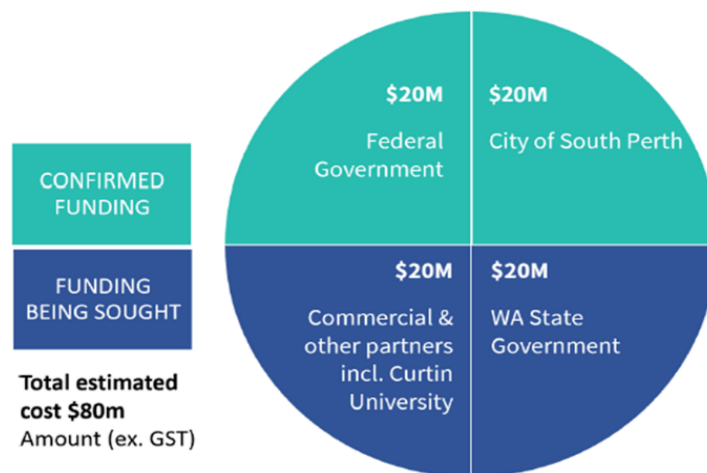
The South Perth Recreation and Aquatic Facility (RAF) is a health, fitness, wellness, and recreation hub located at Collier Park Golf

## The vision for the RAF



## Location and funding

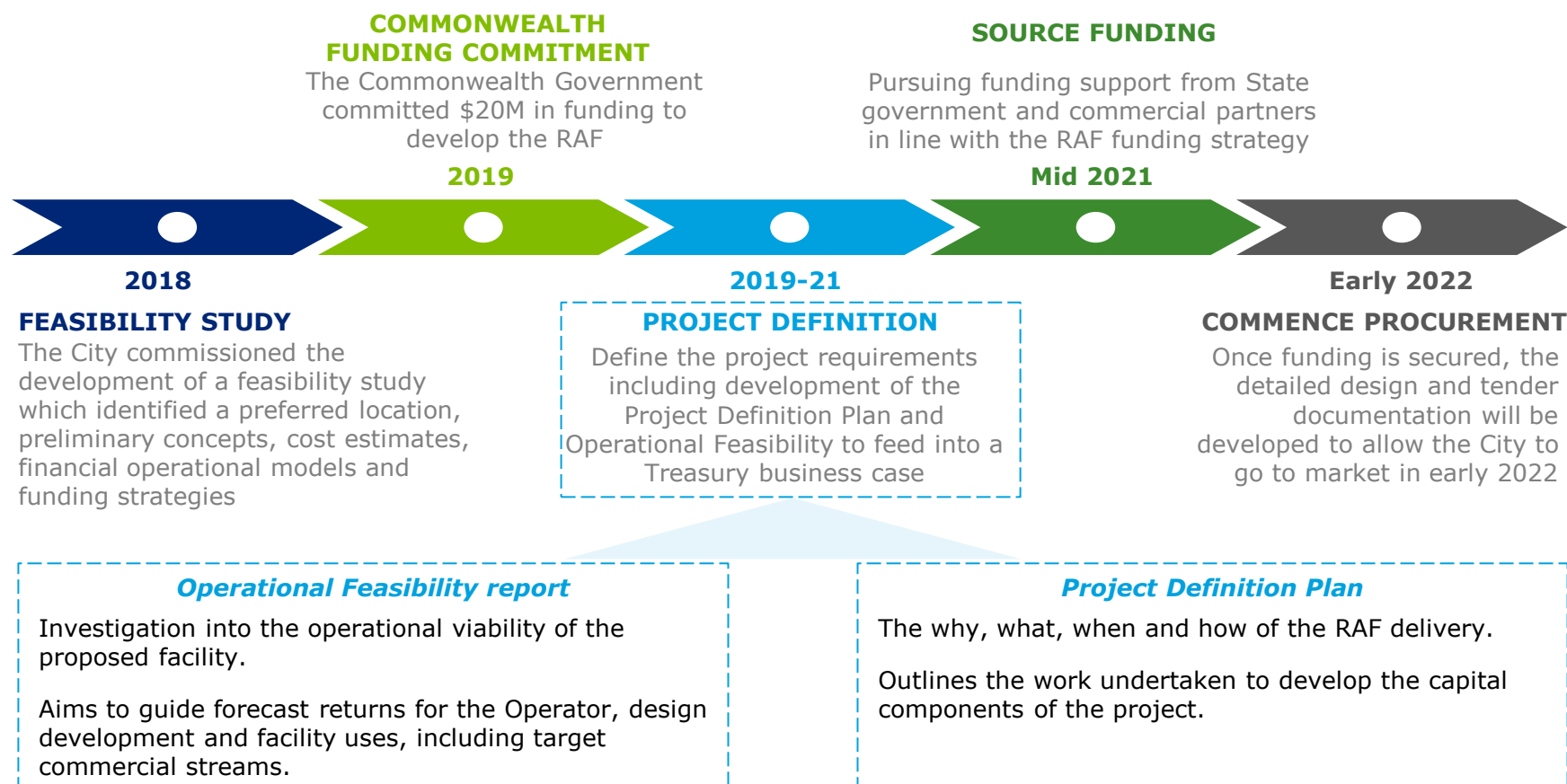
- > The RAF is to be co-located adjacent to Curtin University at the Collier Park Golf Course (CPGC), slightly north of the existing golf clubhouse which will be demolished and integrated with the RAF.
- > The RAF is expected to cost \$80 million, the City proposes that funding be sought through multiple parties, including commercial and other private funding partners such as Curtin University and the commercial operator of the facility.



# Development process

The development process to date is documented (by the City) in two key reports: the Operational Feasibility and the Project Definition Plan

**A comprehensive planning process for the RAF project has been undertaken by the City.** This has included primary research, potential partner discussions, industry benchmarking, site visits, scenario analysis, technical advice, and the development of planning documents over an extensive period.



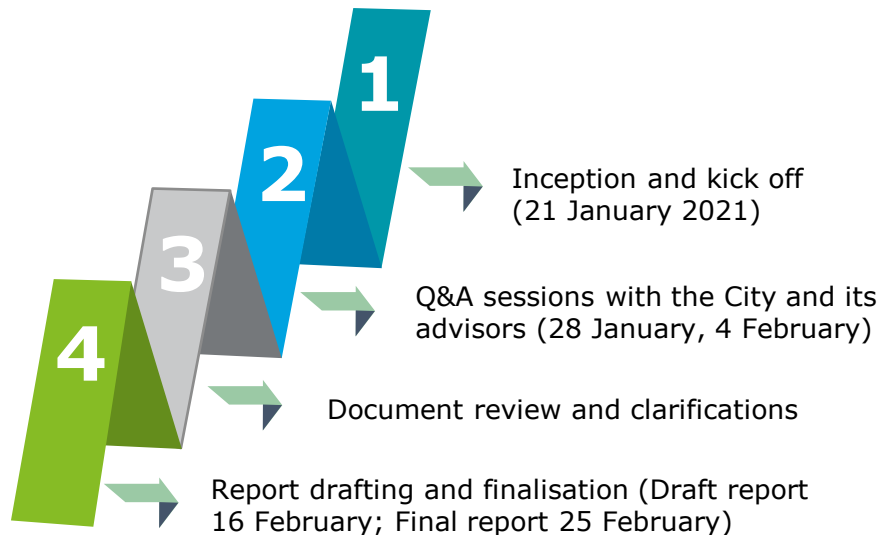


# Scope of the review

Deloitte undertook a Peer Review for the RAF, focusing on the functional and operational aspects of the RAF.

## Focus and review process

- > The review focuses on the functional and operational aspects for the RAF.
- > The intent of the review was to assess the appropriateness of benchmarks, approach, modelling and assumptions, and provide key findings regarding the feasibility assessment.
- > The review took place over five weeks:



## Key assumptions and limitations

- > The review focuses on the RAF itself and does not assess the viability or the appropriateness of the South Perth RAF as an investment in the community and region.
- > Further it does not constitute an independent feasibility assessment, cost benefit analysis for the City or consider the City's return on investment.
- > The methodology and key findings are commensurate with the scope of the Review
- > The Review does not include a review of:
  - Capital and renewal / maintenance costs of the South Perth RAF and existing facilities or other costs provided by a Quantity Surveyor
  - Delivery costs and impacts
  - The proposed design
  - Benchmarking of golf and rock-climbing wall metrics (including financials) as these are provided by the City.

All limitations and assumptions are on page 11.

# Methodology

The methodology applies key considerations across three areas of key findings

## Areas of key findings

1.

### ***Overarching strategic aspects***

Considers the City's proposed business model and the overall approach taken by the City and its advisors in developing the RAF and the supporting documents.

2.

### ***Operational and functional aspects***

Considers the performance of the RAF and its constituent components, with respect to demand, costs, facility provisions and projections

3.

### ***Financial cashflow aspects***

Considers the components of net operating profit (beyond the operating projections) that provide insight to the viability and profitability to the City, and the operator.

## Key considerations

### Benchmarking

- > Comparison to similar projects across Australia and within WA
- > Experience in these projects informs analysis and views expressed in findings

### Reasonableness of assumptions

- > A view of the quality, appropriateness or fairness
- > Considered within the RAF context, given information, provided by the City

### Conservatism of assumptions

- > Identify risks of changes in assumptions on feasibility
- > Conservative assumptions improve feasibility when aligned with benchmarks



# Project assumptions and components

The RAF includes diverse facilities and will be operated by a private third party

## Business model assumptions




- > The City will own the RAF
- > Funding is provided from multiple parties – Federal government, the City, WA state government and commercial partners
- > The operations of the RAF are outsourced to a suitably qualified third party (the 'Operator')
- > The Operator is assumed to contribute to the capital costs of the RAF
- > The Operator is responsible for RAF revenues and costs
- > The City and Operator collaboratively make key operational decisions (such as programming, services, tenants and pricing)
- > The Operator will require the RAF to generate a net operating surplus to remain financially sustainable
- > The City is 'no worse off' than today as the Operator is required to make lease payments to the City

## Facility components

### Aquatics and leisure

- |   |   |
|---|---|
|  50 metre outdoor pool with boom     |  Learn to swim pool                        |
|  Leisure and warm water pools        |  Sports Hall                               |
|  Health club including program rooms |  Community House (incl. Curtin Uni)        |
|  Climbing centre                     |  Function / multipurpose areas and carpark |

### Commercial

- |   |
|---|
|  Retail / Pro shop |
|  Food and beverage |
|  Creche            |

### Golf

- |   |
|---|
|  27 hole golf course and clubhouse |
|  Minigolf                          |
|  Driving range                     |

# Key findings

The key findings for each aspect of the review are summarised below, based on more detailed findings on specific topics

## ***Overarching strategic findings***

- > The proposed RAF business model is unique in that it transfers all management and financial risk to the operator.
- > This has implications for the analysis which focuses on the operator's viability, rather than the benefits of the City's investment in the community.
- > Given the stage of the project, conducting a market sounding process and comprehensive risk assessment would add to the robustness of the analysis and inform current assumptions.

## ***Operational and functional findings***

- > The RAF strategic positioning, assessment of demand, level of car parking provision and the key financial assumptions support the objectives of the project and/or the financial performance projections.
- > Critical factors such as a refinement of the RAF design and a detailed assessment of the key risks require further review by the City.
- > As part of this process, any potential implications on the financial performance and/or the project cost could then be considered in alternate financial projection scenarios.

## ***Financial cashflow findings***

- > The financial modelling approach adopted aligns to the proposed business model.
- > Many of the key financial components, such as the operator capital contribution and net operating profit, should be validated with a broad group of operators to determine their commercial viability.
- > The majority of the financial assumptions appear reasonable given the context, however the sinking fund allowance, construction contingency and some components of indexation are towards the lower end of expected ranges.

# Areas of further investigation

The findings highlight three key areas of recommended further development for the RAF



## ***Detailed functional brief***

Development of a detailed functional brief that refines the current concept design, area schedule, demand projections and facility components



## ***Quantitative risk assessment***

A quantitative risk assessment to determine the potential financial cost and performance impacts of key risks for various scenarios



## ***Operator market sounding***

Conducting a more extensive market sounding exercise with potential operators to confirm appetite for the RAF business model and key assumptions included in the feasibility assessment.

It is expected that development of a Treasury business case would address the identified areas of further investigation.

# Limitations and assumptions

The peer review report must be qualified and read within the context of the following limitations and assumptions of our work.

- Our report and this presentation are prepared solely for the use of the City of South Perth. Our report and this presentation is not intended to and should not be used or relied upon by anyone else we accept no duty of care to any other person or entity. The report has been prepared for the purpose set out in our engagement letter dated 22 January 2021. You should not refer to or use our name or the advice for any other purpose.
  - Our work is based on the information provided to us. We have not audited, tested, or otherwise verified any of the information use in the preparation of this report.
  - Whilst this report may contain our views as to indications of value, it is not a formal valuation and cannot be treated or relied upon as a valuation.
  - The assumptions, benchmarks and interpretations assessed herein may change significantly and unexpectedly over the short-term (attributed, but not limited to factors such as a result of general market movements or factors specific to the particular property).
  - We have adopted certain assessments and findings based upon our reasonable investigations and enquiries given the scope and timing of the engagement. These have been based on the information and assumptions referred to in this Report. The achievement and/or sustainability of our projections/forecasts will, by their very nature, be affected by a variety of fluctuating economic and market conditions of the type that are not necessarily capable of being known or predicted at this or any given time. We do not warrant nor assume responsibility for the accuracy of projections or assessments.
3. The Peer Review is high level in nature, has been completed within a compressed timeframe (5 weeks) and does not constitute an independent feasibility assessment, cost benefit analysis for the City or consider the City's return on investment.
  4. The documentation provided is extensive encompassing the Project Definition Plan (533 pages) and Operational Feasibility (219 pages) and while we have made reasonable efforts to ensure the information provided is accurate, robust and informed, greater time to review the material or further information provided may impact the findings of this Review.
  5. The review of the financial model has been restricted to a pdf version of the model – which limits our ability to assess the functionality of the model within a limited timeframe.
  6. The Review has been undertaken as a desk top exercise.
  7. We have consulted with the City's Officers and the NS Group, in one inception meeting and two question and answer sessions. The rationale for processes and assumptions was gathered verbally through these consultations except as noted in the report.
  8. The Review does not assess the viability or the appropriateness of the South Perth RAF as an investment in the community and region.
  9. The Review does not include a review of:
    - Capital and renewal / maintenance costs of the South Perth RAF and existing facilities or other costs provided by a Quantity Surveyor
    - Delivery costs and impacts
    - The proposed design
    - Benchmarking of golf and rock-climbing wall metrics (including financials).

## Engagement limitations

1. In providing the Services we have relied upon and assume, without independent verification, the accuracy and completeness of information provided by the City and its advisors, and available from reputable public sources, except as appropriately set out in our engagement letter.
2. The Peer Review report is an independent, commercial-in-confidence Deloitte branded document and will not form part or be attached to Documents provided by the City's documents and is intended for internal use by the City only.



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