

# KING COUNTRY SPORT AND RECREATION CENTRE – STEERING GROUP REPORT & RECOMMENDATIONS

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11 August 2021, with 26 August 2021 update included on page 9.

## BACKGROUND – FROM 2015 TO DECEMBER 2020

- i. As the Ministry of Education and the Te Kuiti High School were planning for the replacement of its existing 50-year-old gymnasium, the option to develop an indoor sports facility as a school-community partnership began back in 2015.
- ii. This approach would ensure the best outcome for both the school and the community, avoiding duplication of investment and effort and ensure the provision of a sub-regional two court indoor facility for the King Country could be achieved. As advocated by Sport NZ, “Shared school and community use enable a ‘better’ facility to be constructed for the benefit of the school and the community. Investment by the community in a school gymnasium enables a larger facility, able to cater for a greater range of activities, to be realised.”
- iii. Initiated by the School’s Board of Trustees, the Game On Charitable Trust (GOCT) was then established and assumed responsibility for the project in 2018. The Trust is made up of seven community trustee representatives.
- iv. The King Country Sport and Recreation Centre has been endorsed as a sub-regional priority project identified in the Waikato Regional Sports Facility Plan and in the National Indoor Sport Facilities Strategy. The proposed Centre includes two full indoor courts (can accommodate two full size netball courts, the largest court size), a fitness centre and multi-purpose room, with supporting amenities.
- v. Fundraising for the project proved challenging, but to the credit of the Trust funding of \$7.5M required to address the then proposed project budget was achieved in mid-2020. The Ministry of Education had set aside \$1.74M to the project being their contribution to replacement of their ageing gym with the balance of \$5.76M funding committed from Waitomo District Council, NZ Lottery Board, Crown Infrastructure Fund, Trust Waikato, and the Grassroots Trust.
- vi. After this capital investment was secured, the focus then switched to formalising the lease and license to occupy agreements with the Ministry of Education together with operational contributions agreements with the local authority and funding agencies. In late 2020 the Ministry of Education advised it had some concerns with the project’s viability and requested the GOCT further consider its Business Case and address the Ministry of Education’s concerns.

## **CURRENT POSITION – JANUARY TO JULY 2021**

- viii. In February 2021 Sport NZ engaged SGL Funding Ltd as an independent subject expert to firstly review the project, and to then facilitate discussion between all relevant parties and revise the business case.
- ix. Consequently, a Steering Group has been working since early May 2021 to progress and re-set the project to address all parties' requirements including those of the Ministry of Education. The Steering Group includes representatives from the Ministry of Education, Waitomo District Council, Game On Charitable Trust, Te Kuiti High School Board of Trustees, Sport NZ, Sport Waikato, and Trust Waikato – please see Appendix 1 for the membership of this Steering Group.
- x. In July, the Steering Group presented its Revised Business Case and supporting information to the Ministry of Education for consideration and is currently seeking Ministry of Education's confirmation that it is now comfortable that the project can proceed on the revised basis proposed below.
- xi. Similarly, the Steering Group is seeking approval by the Waitomo District Council for the recommendations in this paper.

## **RECOMMENDED PROJECT DIRECTIONS AND FUNDAMENTALS**

The Steering Group has considered and further developed the following project elements:

- a) Location and Resource Consent
- b) Facility Design and Procurement
- c) Project Cost and Services
- d) Capital Funding
- e) Operating Viability
- f) Facility Ownership, Governance and Management
- g) Project Timeline

The specific proposed directions of the project are in turn described under each of these headings.

### **a) Location and Resource Consent**

#### **Original Resource Consent**

The application was to seek land use consent to construct and operate an indoor sport and recreation centre on the Te Kuiti High School site, in a location relatively close to the existing gymnasium (Location A). The land area was about 7,263m<sup>2</sup> and is zoned as residential. The owner of the land is the Ministry of Education.

Resource consent was granted on 13 February 2019 and is valid until February 2024. The application number for the consent is RM190001.

## Resource Consent Variation

As part of the Steering Group review, the location that had evolved as per the September 2020 design by Apollo Projects Ltd was effectively opposite the George Street access way (Location B) and fell outside the original resource consent.

This location was deemed to be too distant from the School. The updated design in June 2021 moved the facility about 35m closer to the School (Location C), which was deemed the prudent distance to achieve sufficient proximity to the School, but if moved much closer was going to result in increased earthmoving due to an increasing contour as one moves closer to the School buildings.

However, there was also a parallel need to undertake further geotechnical testing, which the Steering Group commissioned in mid-June 2021.

Due to project time constraints, the Steering Group prepared and submitted a resource consent variation to Waitomo District Council for Location C, which was approved on 6 August 2021.

Subsequent to this decision, the results from the geotechnical bores indicated an adverse soil profile at Location C and suggested the final location should now be closer to Location A. Further geotechnical work is being undertaken to determine the final location, which is likely to be between Location A and Location C and could now fall within the original consent area. This final site location and any consequent further consent implication (which would be minor) is still being resolved.



*Te Kuiti High School Site Showing the Different Facility Locations*

## b) Facility Design and Procurement

### Value Management

Early in the project re-set process it was evident some cost savings would be required. A value management exercise was undertaken, which without compromising court size and run-off, nor the size of the fitness centre floor area, reduced the total building size by about 17% from 3,120m<sup>2</sup> (as per the September 2020 design) to 2,574 m<sup>2</sup> (as per the 25 June design).

### Design Build and Independent Assessment of the Price Competitiveness of Apollo Projects Ltd's Project Cost

GOCT originally approached Apollo Projects Ltd (Apollo) to prepare concept designs for a design-build. A design build construction method had been chosen as it was considered to be the most cost-effective build option for what is a relatively simple building.

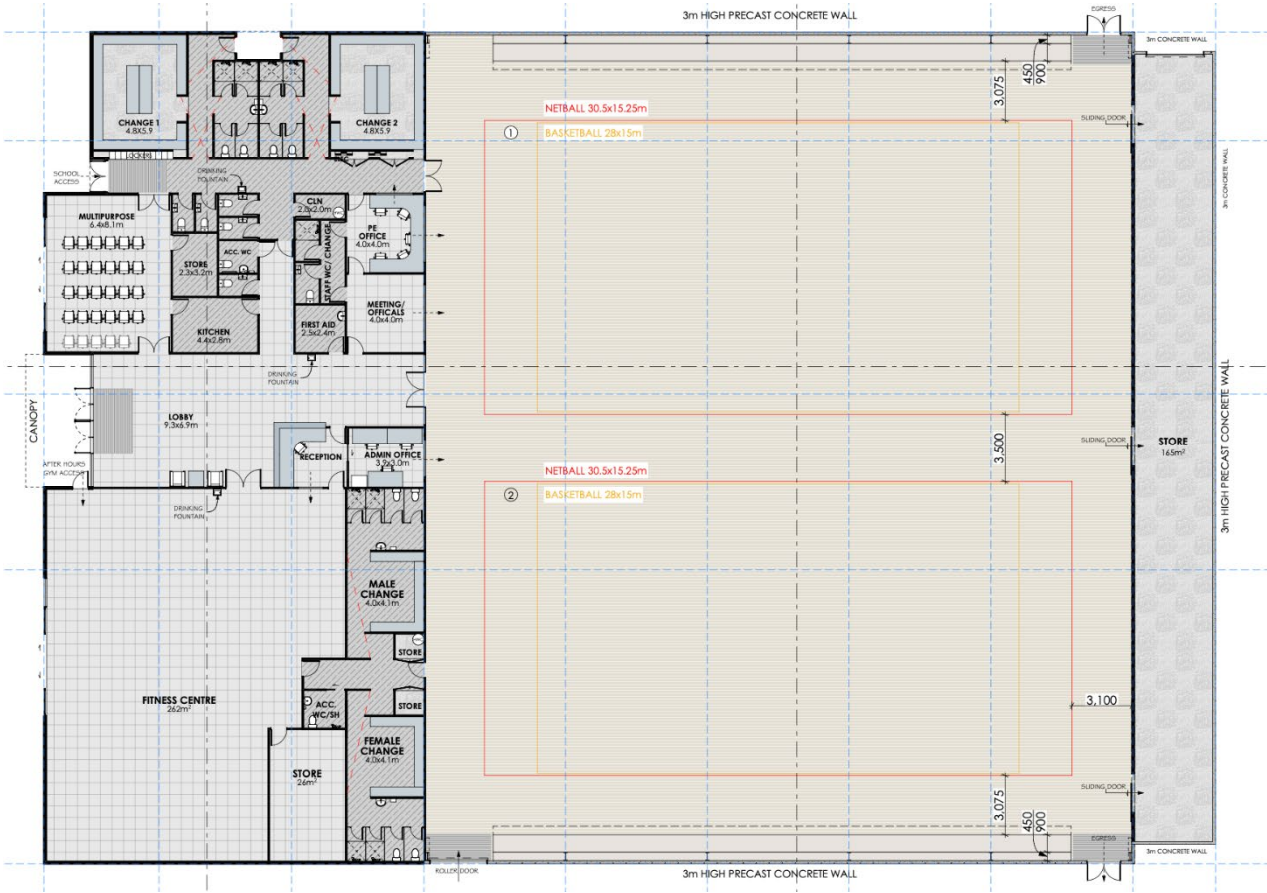
Apollo are a nationwide design build company with established experience, but no procurement process had been undertaken. Consequently, an early action by the Steering Group was to independently assess the cost competitiveness of their proposed design.

Rawlinsons Quantity Surveyors undertook this assessment during May 2021 based on the September 2020 design, and again further reviewed the fixed cost for the revised design dated 25 June 2020. Rawlinsons advised as per their correspondence dated 28 June 2021, "In summary, we believe the project costs submitted by Apollo Projects are competitive and provide a cost-effective solution for this development".



*External Visual for 25 June 2021 Design*





Floor Plan for 25 June 2021 Design

## **c) Project Cost and Services**

### **Total Project Cost**

Cost escalation has occurred due to the delayed timing of the project and construction supply pressures as a result of COVID.

The Steering Group reviewed the project cost in detail and has made additional provisions, including:

- Provision for a sprung wooden floor
- Increased the fit-out provision to about \$640,000 (before contingency)
- A \$250,000 operating provision to provide sufficient cash flow for operations, in particular in the early years
- Additional contingencies for earthworks, design and consultant support are currently provided, which equate to about 7% of the total budget at this time.

Please note, the MOE is solely responsible for the costs and responsibility for the demolition of the existing TKHS gymnasium.

### **Services**

Extra power and sewerage requirements are needed to meet the requirements of the Centre.

## **d) Capital Funding**

### **Additional Funding**

Additional capital funding was required to meet increased costs. Trust Waikato and Grassroots have advised increased support, and Te Kuiti High School proposes to apply funds from the sales of two properties.

Community fundraising of \$150,000, which is yet to be secured, is also required to be raised by GOCT towards total fitout costs.

It is noted GOCT has been the applicant to date for public funding. Discussion with all public funders has indicated no fund transfer concerns with a change of facility ownership.

### **Cashflow**

Local accountants Smith Mitchell Ltd were contracted during June 2021 to prepare a draft consolidated cash flow which integrated the project build, GOCT operations to date and fitout, and the future operation of the Centre. The purpose of this cashflow was to provide a guide on the required timing for payments of all funds.

## **e) Operating Viability**

### **Operating Grants and Sponsorship**

During May and June 2021, the Steering Group has undertaken many steps to confirm as far as possible future operating grants and sponsorship for the Centre. There is a good confidence level that budgeted operating grant levels can be achieved. Initial positive sponsorship support has also been indicated by several major local companies.

### **Detailed Operating Modelling by SGL**

During the independent review process in February/March 2021, and then for the redeveloped Business Case during June/early July 2021, SGL has fully redeveloped the operating projections for the start-up period and for the first five years of operation.

As is usual for a facility of this type in a rural catchment of similar size, with good management and a reasonable level of operating grant support, the facility could be expected to achieve cash breakeven. If the facility is run very well, then it will meet the majority of ongoing fitout depreciation and may meet some of its Long-Term Maintenance costs.

Various operating scenarios with different levels of sensitivity analysis were applied which effectively verified this level of financial performance. Direct management is currently the preferred operating model, though there are further specific strategies (such as 'Accredited Volunteers' to supervise the facility in off-peak times) that could be considered and developed in the next business planning phase to help further mitigate costs and/or consolidate operating revenue.

### **Review of SGL Operating Modelling by Deloitte for the Ministry Of Education (MOE)**

The MOE engaged Deloitte to review the Business Case and in particular SGL's operating modelling from mid-July to early August 2021 and it is understood to have confirmed an appropriate level of comfort with SGL's operating assumptions and projections.

SGL and Deloitte also explored together further management model options, which will be further considered during the next few months.

### **Long Term Maintenance Contributions**

In parallel with the operating modelling, shared facility ownership discussions have occurred. Most recent operating modelling by Deloitte is now applying Long Term Maintenance (LTM) contributions by both MOE and TKHS, whereas due to a lack of clarity, SGL operating modelling showed no LTM input by MOE.

## **f) Facility Ownership, Governance and Management**

### **Legal Framework and Ownership**

The MOE proposed a shared ownership model as their preferred and accepted model for a school-community partnership.

This shared ownership model sees 65% of the facility owned by Waitomo District Council, 24.7% by MOE, and 10.3% owned by Te Kuiti High School. The '35%' ownership share by MOE/TKHS equates to the facility area that would be essentially required by the School.

Consequently, three legal agreements have been drafted by MOE:

- The Development Agreement, which address the construction of the facility, for which Waitomo District Council would be responsible
- The Property Sharing Agreement, which addresses the ongoing facility ownership and corresponding responsibilities of the facility owners
- The Funding Deed, which details the funders of the capital project.

MOE and Waitomo District Council are currently discussing and working through the detail of these agreements. Please note, the Property Sharing Agreement requires the MOE and TKHS to contribute ongoing to the building insurance and Long-Term Maintenance on an agreed basis.

The proposed legal framework also means that Waitomo District Council will be ultimately responsible for the ongoing operation and maintenance of the facility.

### **Future Facility Governance and Management**

The Steering Group recommends, and the legal framework currently allows, that the GOCT will be contracted to govern and manage the operation of the Centre, for an expected 5-year period with right of renewal.

However, the Steering Group and GOCT recognises a critical success factor for the future operation of the Centre will be Trustees with the required skill sets and community connections.

## **g) Project Timeline**

To meet external funding and Apollo contract requirements, it is essential that both Waitomo District Council and MOE fully approve this project to proceed by 31 August 2021.

In turn, it is proposed that the full responsibility for this project would transfer from GOCT and the Steering Group to Waitomo District Council from 31 August 2021.

Please note, it is the intention of the Steering Group to still operate for a further two months (until about 31 October 2021) to provide ongoing project support as appropriate to Waitomo District Council.



## UPDATED STEERING GROUP REPORT AS PER 26 AUGUST 2021

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Further to the 11 August 2021 report, the following updated information is provided:

**Location:** Due to receipt of updated geotechnical information, the proposed location of the Centre has now been confirmed as Location C.

**Ministry of Education Design Review:** Discussions have occurred between the MOE Design Review Office and Apollo, with some subsequent changes to cladding being made, and consequent completion of the MOE design review process at this stage of the design.

**Updated Contract Price:** Apollo has provided an updated fixed price until 30 September 2021, which includes MOE design changes plus geotechnical and cost escalation implications. This revised price can be managed within funding and budget parameters.

**Game On Charitable Trust Endorsement:** The Game On Charitable Trust met on 23 August 2021 to approve the Steering Group recommendations.

## STEERING GROUP RECOMMENDATIONS - Updated

1. That the King Country Indoor Sport and Recreation Centre proceed based on the core Apollo Projects Ltd design as per 25 June 2021, with the final location to be Location C
2. Based on the updated fixed price as at 25 August 2021 with recent design changes as requested by the Ministry of Education, and that there is agreement on acceptable conditions of contract, that the design-build construction contract with Apollo Projects Ltd is approved by no later than 30 September 2021
3. That the legal framework proposed is implemented, which requires:
  - 3.1 Full construction responsibility by Waitomo District Council
  - 3.2 Shared facility ownership by Waitomo District Council (65%), MOE (24.7%) and TKHS (10.3%), with corresponding shared building insurance and Long-Term Maintenance contributions MOE and TKHS on an agreed basis
  - 3.3 Waitomo District Council to be ultimately responsible for the future ongoing operation and maintenance of the facility
  - 3.4 That a land lease term acceptable to both parties is agreed but which is no less than 34 years.
4. That a Charitable Trust with Te Kuiti High School and community representation, and Waitomo District Council representation as appropriate i.e., a 'revamped' Game on Charitable Trust, with the right Trustee skill set and with robust ongoing Trustee appointment processes, is the preferred model to govern and manage the operation of the Centre (Please note, if there is not direct Council representation on the Trust, that it is essential ongoing effective communication occurs at both a Council governance and staff level)
5. That Game On Charitable Trust and the Project Steering Group transfer full responsibility for this project to Waitomo District Council from 31 August 2021.

## **APPENDIX 1: STEERING GROUP ROLE AND MEMBERSHIP**

The Independent Review by SGL recommended the formation of a Steering Group comprising of senior representatives of all key stakeholders to collectively problem solve all required matters so the project is in a position to proceed.

The Steering Group has met on four occasions since early May 2021, with multiple sub-groups meeting separately to address different project aspects. Major project progress has been achieved in this last 14-week period.

The Steering Group membership includes:

- Waitomo District Council Mayor, John Robertson
- Waitomo District Council Councillor, Allan Goddard
- Trust Waikato CEO, Dennis Turton
- Sport NZ Spaces and Places Consultant, Jamie Delich
- Sport Waikato CEO, Matthew Cooper
- Te Kuiti High School Board Member, Jo Randle
- MOE Infrastructure Manager, Peter Hannam
- Game On Charitable Trust Chairperson, Robyn Lindstrom
- On an invited basis: Game On Charitable Trust Project Co-ordinator, Bruce Maunsell
- Independent Chair, SGL's Steve Bramley.