Feasibility Study Guide

SPORT AND RECREATION FACILITIES

JULY 2007

A guide for sport and recreation facilities owners and managers

Department of Sport and Recreation
Government of Western Australia

Feasibility Study Guide

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2nd EDITION

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July 2007

ISBN: 0-9752115-3-6

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Disclaimer

This recourse contains comments of a general nature only and is not intended to be relied upon as a substitute for professional advice. No responsibility will be accepted by the Department of Sport and Recreation for loss occasioned to any person doing anything as a result of any material in this resource.

This guide was prepared with a view to outlining the Department of Sport and Recreations' requirements for a feasibility study. However, any opinions, findings, conclusions, or recommendations expressed herein are guidelines only and should not be expressly relied on by project proponents.

Contents

1.0 Introduction

The second phase in the facility planning process is the Feasibility Study. The purpose of a feasibility study is to examine the viability of a proposal so that any decision can be informed by objective analysis. Your decision may be to implement, amend, refine or abandon the proposal. It should thoroughly test the practicability of:

- Management options
- Facility components
- Location options
- Technical design options
- Social, economic and environmental sustainability
- Cost

This guide provides practical assistance in undertaking a feasibility study for a proposed sport or recreation facility. It highlights the planning issues that need to be considered, the various ways of gathering information and the outcomes that should be achieved.

The information provided is not definitive. It does not, and cannot, outline the correct process of undertaking a feasibility study for all proposed sport or recreation facilities. The nature of the proposal, together with local circumstances, will determine the content and process of the feasibility study. This is intended to be a guide and should be used as such. Contact your nearest Department of Sport and Recreation office if you require assistance with using the guide.

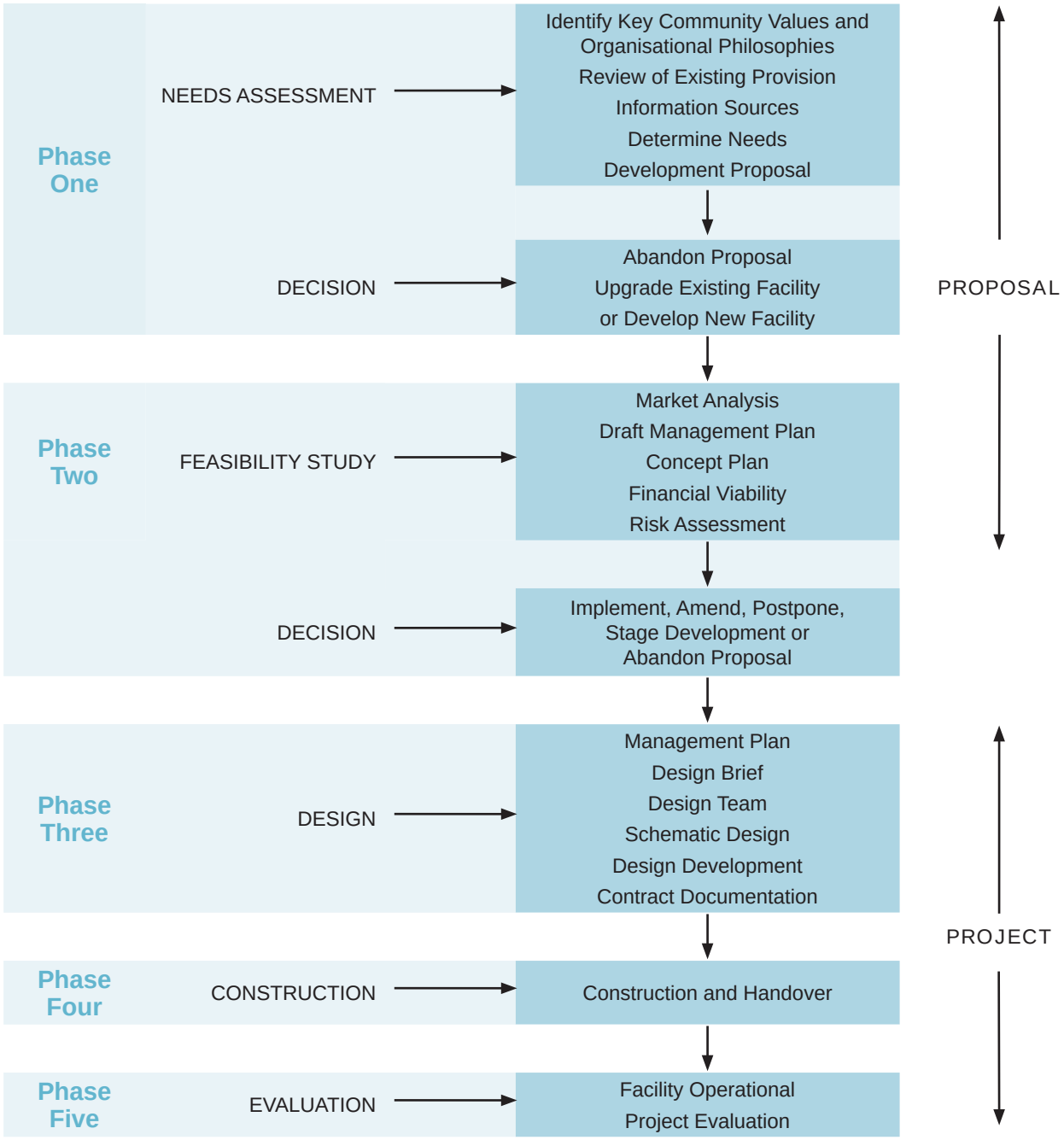
Remember, a sport or recreation facility should be about meeting community needs. It should be designed for and with people, facilitate community interaction, be a “community hub” and be affordable to the community. The outcome of any feasibility study should be tested against this.

This guide is part of a suite of documents that can assist you with planning, testing and managing facilities.

2.0 Facility Planning Process

The five key phases in the Facility Planning Process for a sport and recreation facility are illustrated in the following diagram:

Figure 1



In planning a sport or recreation facility, the first step is to undertake a needs assessment to justify its provision. The Department's Needs Assessment and Decision Making Guides can assist.

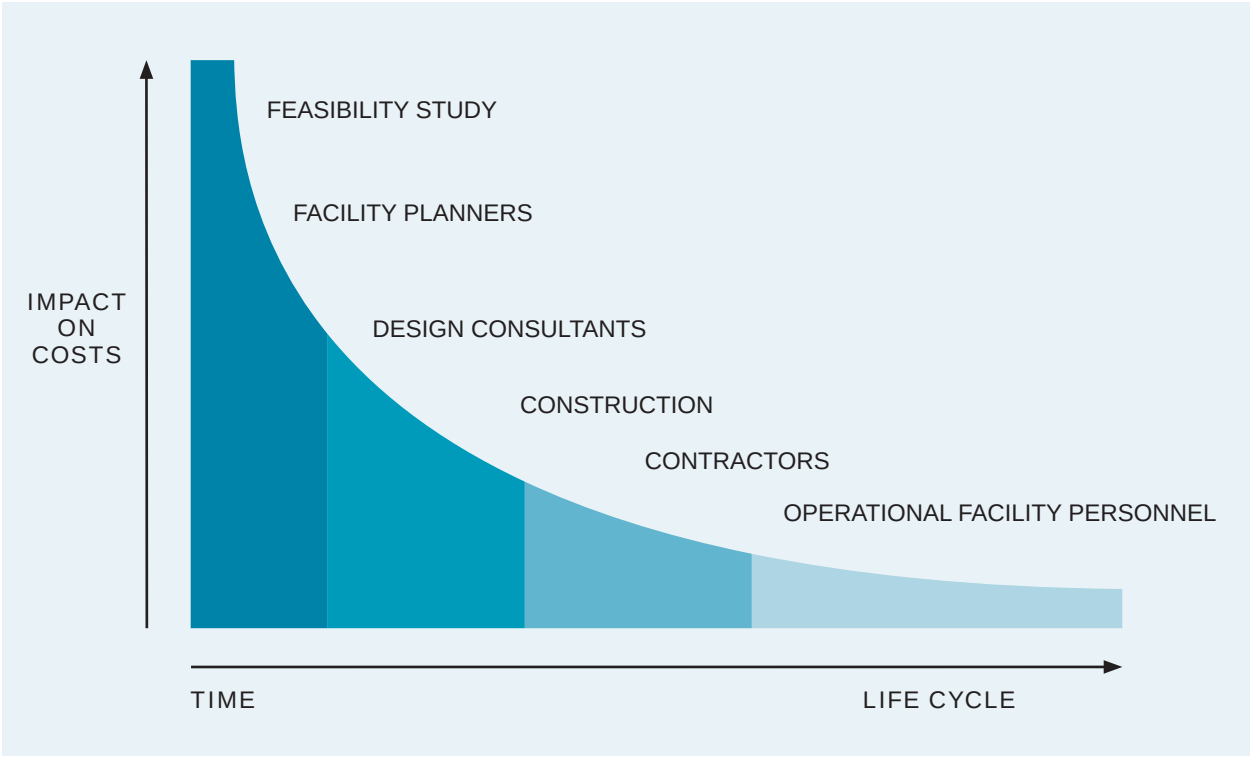
The second step is to undertake a feasibility study to assess the viability of the proposal. The feasibility study should determine:

- The range of opportunities and services to be offered at the facility
- How the facility should be managed
- The best location for the facility
- What areas and features the facility should comprise of
- The practicality of the design and technical aspects
- Whether the community can afford the cost of its construction, operation and disposal
- The economic, environmental and social impact that the proposed facility is likely to have on the community

Although this planning process may seem lengthy, it is cost-efficient. It is generally accepted that the feasibility phase of the planning process may cost up to 10% of the total cost of the development, but can determine up to 65% of the final cost of building the project.

As planning advances into the design and construction phases, it becomes increasingly more difficult to influence the final cost of the project. Figure 2 demonstrates that the optimum time to reduce life and project costs associated with any project is at a feasibility study stage. The cost and time impact is greatly reduced as the process continues along it's life cycle. An increased emphasis on the feasibility and planning stages of a project can greatly improve the life performance of an asset.

Figure 2[1]



3.0 Preliminary Plan

CORPORATE POLICIES AND PLANS

Before embarking on a feasibility study, the client should discern the appropriateness of the proposal to build a facility. Is it the client's core business to provide this facility or would it be more appropriate for another agency to provide it? Is there scope to partner the proposal?

The client should have a recreation and/or sport policy, stating its vision, mission and aims for the provision of facilities and services. This policy may also form part of a broader corporate plan.

Ideally, the provision of sport and recreation facilities should be guided by a Strategic Recreation Plan which establishes a future direction and vision and strategies for achievement, guiding service and facility provision.

The Local Government [Amendment] Act[2] introduced in 1995, requires local authorities in Western Australia to develop an overview of the plan for the future for all major sport and recreation facility or service provision investments. This plan normally takes the form of a strategic plan that outlines the aims and objectives of each project, estimated capital and operating costs, funding sources, proposed timeframes and performance indicators . Business plans provide the specific operational details on how a particular service will be delivered.

For further information on facility planning please consult the resource Decision Making Guide.[3].

ASSESSMENT OF NEED

It is essential that a needs assessment be undertaken before embarking on a feasibility study. In short, this involves identifying any lack or over supply of existing facilities and services. The aim of a needs assessment is to justify provision. It is only when the needs assessment is completed that a feasibility study is undertaken to assess the viability of any proposed facility development.

For information on undertaking a needs assessment please consult the resource Needs Assessment Guide and Decision Making Guide: Sport and recreation facilities[4].

4.0 Preparation

ESTABLISHING A COORDINATING COMMITTEE

A number of different approaches can be used to undertake a feasibility study:

- Internal approach - the study is undertaken by members of the client organisation
- External approach - the study is undertaken by a private consultant giving independence
- Combined approach - the study is undertaken by a mix of internal and external personnel

For the purpose of this guide, the last option (combined approach) is discussed below, as this will achieve a greater commitment from stakeholders and the community.

A combined approach requires the client to appoint a coordinating committee to manage and control the feasibility study process. This coordinating committee should comprise of:

- A project co-ordinator (the in-house officer responsible for the study)
- Other relevant members of the client agency
- Community/business sector representatives
- Representatives of proposed user groups/tenants
- An experienced facility manager
- Department of Sport and Recreation personnel

The make-up of the committee will depend upon the type of facility being proposed. Key stakeholders including Department of Sport and Recreation staff should be involved from the start. The committee should have the power to co-opt other professionals and individuals if and when required.

Ideally the committee should have a diverse range of expertise in:

- project management
- town planning
- building design
- recreation planning
- business/financial management
- facility management
- community development.

It may not be necessary for the committee to have knowledge in all of these areas – the specific expertise needed will be determined by the complexity of the proposal. However, it would be beneficial if the committee members had a basic understanding of the various aspects of planning a facility.

The client should provide the committee with the following:

- A philosophy/values statement of the organisation.
- An outline of the purpose of the committee.
- The reporting relationship between the client and the committee.
- Details of the study budget and other available resources.

THE TERMS OF REFERENCE (TOR)

The TOR should be developed by the coordinating committee and should outline the parameters of the study. The TOR is what must be investigated and reported upon. Furthermore it should detail the following:

- The philosophical base of the client and how this impacts practically on the proposal
- The aims and objectives of the proposed facility
- What issues need to be investigated and reported upon
- Expectations regarding community involvement/ community consultation
- Expectations regarding the outcomes/outputs of the feasibility study report

Once developed, the TOR should be approved by the client before commencing the study. This process will ensure the client retains control over the scope of the study.

Department of Sport and Recreation staff should be invited on the coordinating committee, attend appropriate committee meetings and provide an advisory or consultation role where DSR provides funding assistance. The Department may submit minority reports on the feasibility study if the department does not agree with the findings of the study.

TERMS OF REFERENCE EXAMPLES

1. To investigate and report on the social and financial viability of the proposed facility
2. To identify a site/s that will maximise access to the facility
3. To investigate management options and recommend an appropriate facility management model
4. To investigate and report on any special facility needs that should be incorporated into the design (e.g. disabled access)
5. To analyse planning, construction and management costs of alternative sites, designs and management structures and recommend the best long-term option

METHODOLOGY

The coordinating committee should decide what investigative methods will be used in undertaking the feasibility study. There are a number of different methods used to identify and gather relevant information. Choose the most appropriate methods for your proposal. Some commonly used methods are:

- Literature search
- Community surveys
- Site visits to existing facilities in other localities
- Discussions with experienced facility managers and peak industry bodies
- Researched information, e.g. technical data, usage patterns
- Public meetings and forums
- Direct interviews with key groups and individuals
- Community workshops with key groups and individuals
- Workshops with expert reference groups
- Liaision with neighbouring local governments
- A spatial (GIS) mapping process

Be aware of all assumptions and limitations surrounding the methodology you choose. All assumptions should be clearly stated in the feasibility study report. Misleading information can be generated by using inappropriate methods or by asking the wrong people.

COMMUNITY INVOLVEMENT

In undertaking a feasibility study, community involvement will generally strengthen community ownership and the validity of the findings.

Broad community consultation may identify opportunities to share resources, extend an existing service, enter into a partnership or co-locate complementary services. Where appropriate, a co-operative approach can achieve maximum effectiveness and efficiency.

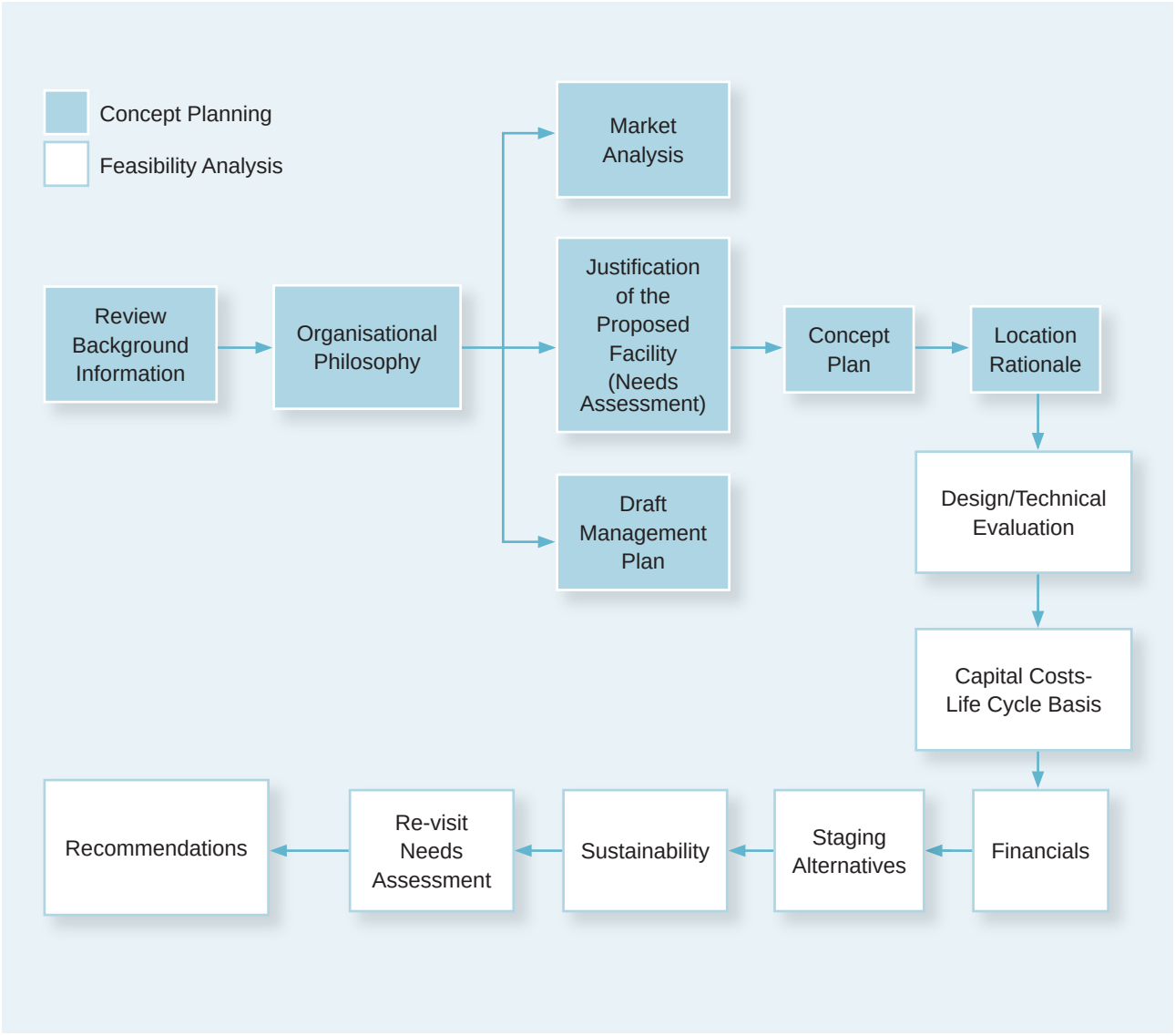
The coordinating committee should decide how much input the community will have into the feasibility study. They should also consider engaging a skilled facilitator to assist with coordinating the consultation process.

5.0 Feasibility Study Process

THE PROCESS IN BRIEF

It is important to acknowledge the two stages in the Feasibility Study Process. The first stage, Concept Planning, develops the concept of the facility, while the second stage, Feasibility Study, tests the practicability of the concept. Ideally, the two stages should be undertaken separately by independent parties to ensure impartial judgement and transparent processes.

Each feasibility study will, and should, vary in process and content. The diagram below illustrates the core elements of the feasibility study process in a sequential progression.



REVIEW BACKGROUND INFORMATION

It is important that any relevant background information such as existing reports, studies and plans be identified and reviewed. This background information may include:

- Documentation detailing the history and development of the proposal, including the report that recommended the proposal to be pursued
- Previous research/planning exercises (i.e. strategic plan, needs assessment, etc)
- Any technical reports or plans relevant to the proposal

You should also review studies and reports relevant to other similar facilities or communities of a similar size and ideally a similar demographic profile.

ORGANISATIONAL PHILOSOPHY

It is crucial that the organisational philosophy and values are determined at the outset of the study process. Your organisational philosophy should define the social, financial and environmental outcomes that could be expected from the facility. It should clarify your position regarding the following policy issues:

- Financial costs – user contributions to capital, maintenance and operating.
- Equity/access – community access to the facility
- Multi/single use – usage and programming.

MARKET ANALYSIS

It is important to assess the socio-demographic characteristics of your community, participation trends, and the strengths and weaknesses of potential competitors and partners. It is useful to develop a spatial locality map to illustrate the results of your market analysis.

Socio-demographic characteristics

Socio-demographic characteristics can be identified through statistics obtainable from the Australian Bureau of Statistics (www.abs.gov.au) and local government authorities. Other useful sources can be obtained from the Department of Education and Training, Department of Social Security and Department for Planning and Infrastructure.

Collect the following information to reflect the uniqueness of the community:

- population size
- age distribution
- gender distribution
- place of residence
- level of education
- income distribution
- employment statistics
- mobility
- cultural origins
- socio-economic status.

Once this information has been gathered, the next step is to:

- Plot population distribution and projected population growth/decline
- Evaluate relevant socio-demographic data to identify the important social and economic characteristics of the catchment population.
- Identify the existence of any special groups

When used in conjunction with information on participation trends, socio-demographic characteristics can highlight the number of potential users for the proposed facility and identify various target market groups. Information on participation trends is available from the Department of Sport and Recreation's Information Centre.

Review information on participation in sport and recreation to identify current participation trends. What are the general characteristics of those people who are likely to participate in the activities you intend to offer? How does this relate to your community?

Review documentation on trends and issues likely to impact on the future demand for the proposed facility (i.e. growth sports, increased home-based opportunities, ageing population). See Appendix A.

Examine whether existing services are declining, rising, ageing or developing? Look for patterns/trends/cycles/seasons in relation to current consumption of sport and recreation services. Check statistical information from different sports with information provided by the Department of Sport and Recreation Western Australia or state sporting associations.

Identify the size of the catchment area for the proposed facility. How far does this extend and can it be increased? What is the competition within the catchment?

Ensure regular reviews on government planning policies are conducted. Changes to policies can determine or shape the decisions taken within the feasibility study.

Competition

It is important to analyse potential competitors and their customers. Assess both direct and indirect/public and private competitors. The analysis should answer the following:

- Who are they and what facilities and services don't they offer?
- Where are they located?
- Who uses their facilities and services?
- How many people use their facilities and services?
- What are their strengths and weaknesses?
- Are they well managed?
- What rates do they charge?
- What is the size and potential of their market share?
- How are they likely to respond/react to the proposed facility?

Evaluate each competitor on these factors and look for an unsatisfied demand which offers an opportunity.

Consider what factors will attract people to the proposed facility? What will enable the proposed facility to complement its competitors rather than compete against them? i.e. price, convenience, opportunity to mix with others, range of sport and recreation opportunities, quality of service and facilities, public access, degree of hospitality, opportunity to join a club, public transport etc.

It is impossible to offer all services to all market segments. Decisions need to be made on which specific market segments will be serviced before the facility is developed.

JUSTIFICATION OF THE PROPOSED FACILITY

Basic Sport and Recreation Requirements

The need for a facility is crucial to the strength of the feasibility study. It is not enough to say "We believe we need this facility" – the need for the proposed development must be investigated, measured, documented and supported, so that the client can be assured that the proposal is justified and sustainable.

Re-visit the basic sport and recreation requirements of the community, as identified in the initial needs assessment, and review the investigative methods and assumptions used to determine those needs.

Examine Options

Examine the different ways of satisfying the basic sport and recreation requirements of the community. The provision of a new facility may be only one of a number of possible solutions.

Consider the following options and select the most reasonable one for further investigation:

- Employ a co-ordinator to develop programs and services at existing facilities
- Provide transport to a nearby existing facility, even if that is run by another LGA
- Amalgamate groups/combine usage at an existing facility
- Rearrange programming patterns at existing facilities
- Renovate/convert/extend an existing facility
- Develop a joint-use agreement with another agency/local government
- Lease an existing facility
- Construct a new facility, either in stages or all at once

Determine how effective each of these alternatives will be in meeting the basic sport and recreation requirements of the community. Decide on a preferred option. It is possible that you will identify several workable solutions.

The examination of alternative solutions may have already been completed as part of either:

- A sport and recreation needs assessment conducted as part of a strategic recreation plan

  or

- A 'facility specific' needs assessment…

  or

- Consideration of a Strategic Facility Plan of the appropriate State Sporting Association

Where this is the case, it is important for the committee to review the recommended/preferred option and be assured that the development of the proposed facility is the most appropriate response.

It is important to remember that the provision of a sport or recreation facility is a long-term financial commitment. Meeting the construction cost is only the starting point of funding a facility. It is the ongoing operating and maintenance costs over the life span of a facility that needs to be considered in greater detail.

DRAFT MANAGEMENT PLAN

Where the preferred option is to develop a facility, the next step is to prepare a draft management plan. This should be done utilising the expertise of an experienced facility manager (use an in-house professional or engage an external person/ group such as the Facility Management Association of Australia).

It is important that management issues are addressed prior to considering the design of the proposed facility, ensuring that the end result is a facility that is designed for effective and cost efficient management.

Management Structure

Decide on the most appropriate management structure for the proposed facility. Be guided by your organisational philosophy. A description of alternative management structures is provided below:

- **Direct Management -** The owner of the facility employs the manager in a normal employee – employer relationship. The owner has full responsibility for all aspects of the facility's operations including operating policies, financial performance and asset maintenance. A management committee may be established to advise and direct the facility manager.
- **Contract Management -** The owner contracts the management of the facility to an individual manager, a community-based organisation, or a commercial group. The contract manager negotiates capital and operating budgets and is responsible for the financial performance of the facility. The owner usually contributes to the maintenance of the facility. The ability to transfer maintenance responsibilities may be restricted by legislation.
- **Lease Management:** A formal lease details the rights and responsibilities of the owner and the manager. The manager has full responsibility for all aspects of the facility's operations including financial performance, asset maintenance, and operating policies. The owner usually receives a rental income but has no direct control over day-to-day management.
- **Joint Management:** Two or more parties agree to share the capital cost, usage and maintenance of a facility. The key elements of the management agreement (ie cost-sharing, legal and usage arrangements) are recorded in a legally binding document.

Determine the most appropriate management structure.

Usage Estimates

Estimate the amount of usage the proposed facility is likely to attract using the following methods:

- **Community Consultation:** Seek information directly from potential user groups and individuals regarding:
  - What specific facilities, program and services potential users need/want
  - How often they would use them
  - Exactly when they would prefer to use them
  - How much they are prepared to pay
  - How far will they travel to use them

This approach records preferences and expressed desires as opposed to real needs.

- **Comparable Facility Method:** Use an existing facility in an area with similar demographic characteristics, as a benchmark to estimate usage for your proposed facility. Define participation rates in terms of a percentage of the total population within the catchment area.

- **Participation Rate Projection.** Obtain sport and recreation "participation rate" studies which present participation rates according to demographic categories. This data can be used to project participation rates in activities you intend to offer at your proposed facility. **Caution should be exercised when applying this method however, since local factors greatly influence participation and national and state data may not be applicable regionally or locally.**
- **Trend Analysis** (To be used when replacing an existing facility). Where participation rates and facility usage levels have been recorded over time, anticipated demand can be projected.

Existing usage patterns really only reflect existing consumption, not real need. Caution should be exercised when using this method as it usually results in more of the same programs and facilities.

Other factors to consider when you estimate usage include:

- Accessibility to the facility
- The impact of the cost of usage fees and the ability of potential users to pay
- The presence of competitive and complementary attractions
- Vehicle flow patterns
- Climatic conditions
- The quality of the experience being offered

When estimating the usage of a proposed facility:

- Use more than one method – performance projections should not be based primarily on the Comparable Facility Method
- Establish a potential range of demand
- Use conservative estimates as there is a tendency to over estimate

Target group/s

Identify what target groups will be serviced by the proposed facility.

Identify the key target customers along with lower priority customer groups of the proposed facility.

Describe:

- The size of each group
- The particular needs of each
- Why they will purchase the proposed programs and services
- How much they are able, willing and expect to pay

The sport and recreational needs of the targeted customer groups will form the basis of the programs and services to be offered at the proposed facility.

Programs and Services

Describe the programs and services that will be offered to each target group. A sample program should be included for each season, along with details of any permanent bookings which have to be honoured. Determine the opening hours of the proposed facility.

Consider how future programs will be developed. The sport and recreation industry is vulnerable to trends. It is important to be flexible in your approach to programming to accommodate changing needs and new activities.

Staff requirements

Staffing costs comprise the largest operating expense in many sport and recreation facilities. Excessive staffing will significantly increase your operating costs while inadequate staffing may result in loss of potential business, under-utilised facilities, staff stress/ turnover or non-compliance with legislation.

- Determine the appropriate number and type of staff required through assessing staff structures at existing facilities
- For each position, identify the appropriate qualifications, the hours of work (full-time, part-time or casual) and the general responsibilities
- Consider relevant award conditions and the scope for workplace agreements
- Examine structures in other operators facilities as a benchmark comparison

A flow chart of the organisational structure could be included.

Marketing Strategy

Develop a marketing strategy for the proposed facility:

- **Programs and services:** Consider how the programs and services to be offered will meet the sport and recreational needs of the target group(s).

  How do these programs and services take advantage of an opportunity/gap in the marketplace?
- **Price:** Consider proposed user fees. Will the target group(s) be willing and able to afford them? How do they compare with fees levied by competitors?
- **Access:** Consider when the programs and services can be offered. Why are these times practical and desirable for the target group(s)?
- **Promotion:** Consider strategies to advertise and promote the programs and services. Will these methods be effective in attracting the target group(s)?
- **Customer Service Standards:** Consider the service standards required to attract and retain loyal customers.

CONCEPT PLAN

In order to develop a preliminary concept of the proposed facility, first identify the various facility components, i.e. the different spaces/functional areas needed within the main structure.

Information on what facility components will be the most appropriate can be ascertained from:

- Discussions with proposed users/tenants
- Visits to similar facilities where the community is of a similar size and demographic
- Discussions with facility managers, design consultants and sport or recreation planners, industry peak bodies (i.e. LIWA)

Care should be taken to be guided by real needs as opposed to desires to avoid spiralling capital and operating costs that create excessive/unsustainable financial burdens.

Outline the specific components of the facility:

- Describe the primary activity spaces required
- Identify the secondary and support areas to be accommodated ie car park, viewing areas, reception/ foyer areas, ablutions, kiosk, sports shop, kitchen, creche, equipment storerooms, etc

  Note: Some of these are ineligible for funding under DSR's CSRFF program or are low priorities.
- Define the functional requirements of each area ie rough dimensions and capacity requirements [based on estimated usage], major items of furniture and equipment to be accommodated, type of floor surfaces, storage space requirements, mechanical services, etc
- Define the important inter-relationships between activity areas. Indicate where activity areas need to be adjacent (consider flow of internal traffic, supervision requirements and potential for multi-skilling of staff). Bubble diagrams may be used to provide a graphic illustration

The above information should provide sufficient details to enable a cost planner/quantity surveyor to estimate the capital cost of the proposal.

Remember, the concept design is flexible and will probably change. Do not spend time and money developing and discussing alternative layouts at this stage. Once the proposal is deemed feasible, and has been approved, it will enter the design phase. It is then that the skills of a consultant design team are utilised to develop a schematic design.

Note: If a design consultant is employed to draw up footprint plans/ illustrations of your concept plan, it is important to ensure their engagement will not compromise your choice of consultants later in the design phase, should this proposal proceed.

LOCATION RATIONALE

Joint Use and Co-location

Consider whether existing facilities could be extended or upgraded for use on a shared basis. If this is not possible and a new facility is required, you should plan in consultation with other facility providers to ensure minimum duplication and maximum use of resources.

Consider the possibility of co-locating the proposed facility with other community or commercial facilities. If properly integrated, this approach can work to create a "hub" within your community, centralising facilities in a village concept. Co-location with other major providers will maximise service and social outcomes and provide opportunities to reduce capital and operating costs.

Discuss your proposal with the Department of Education and Training, local agencies and groups, commercial organisations, neighbouring

local governments and other State and Federal government agencies to explore opportunities to co-locate and share provision and/or use of facilities.

Site Suitability and Specifications

Usually, location and cost will dictate the choice of site. However, when considering a site for a sport or recreation facility, you should assess site suitability. The following considerations should be addressed:

- If you intend using an existing building, assess its capacity and suitability for conversion. This may require a Building Surveyors Assessment.
- For a new facility, carry out a site analysis to determine:
    - Zoning regulations and LGA planning restrictions
    - Ownership of the land and cost to purchase or lease the site
    - Historical value or heritage significance
    - Any bearing to aboriginal sites legislation.
    - Accessibility for motor vehicles, public transport, pedestrians and cyclists
    - Visual exposure
    - Social impact – opportunities for integration with community and commercial facilities
    - Proximity to the catchment area and potential user groups
    - Size – provision for car parking, potential for expansion
    - Existing structures and their usage
    - Surface and sub-surface conditions (geo technical, acid sulphate soil, contaminated sites legislation)
    - Environmental considerations
    - Meteorological conditions
    - Availability of building materials and mobilisation costs
    - Road use impact
    - State government planning restrictions (i.e. bush forever)
- Carry out a site survey to determine:
    - Site specifications
    - Grading
    - Topography
    - Vegetation
    - Existing pollution and/or contamination
    - Location of utilities and services
- Assess the preferred orientation for the facility within the site boundaries.
- Match the building to the site, ensuring the desired activity inter-relationships can be accommodated.

Note: It is acknowledged that the site for the proposed facility may be predetermined due to the limited availability of land. However, it is still recommended that the above considerations be addressed to ensure the best use is made of the site.

DESIGN/TECHNICAL EVALUATION

Technical Aspects

It is important to test the practicability of the technical aspects of the concept design. This will ensure that energy use/consumption, maintenance of all technical systems and utilities (i.e. lighting, airconditioning, heating, sanitation and filtration systems for swimming pools, reticulation, water pumps and bores) and ongoing operational costs are investigated and that the most practical and cost effective options are selected based on Life Cycle Costing guidelines[3].

When undertaking this exercise, engage the expertise of an engineer to provide professional assistance and discuss the proposal with industry peak bodies.

Refer to existing facilities for relevant performance and maintenance records. This process will ensure that you are aware of the financial, management and maintenance implications of the technical design aspects of the proposed facility.

Note: A comprehensive energy audit should not be undertaken until the project enters the design phase.

For further information refer to the Department of Sport and Recreation publications Life Cycle Cost Guidelines and Asset Management Guide.

CAPITAL COSTS

Capital Costs

Detail the estimated capital costs of the proposed options for the facility. A cost planner or quantity surveyor should prepare a cost plan showing the following items:

- Acquisition of land and site surveys
- Site preparation
- Construction costs including provision for cost escalation
- Technical systems and utilities
- Fixed equipment and furniture (non-fixed items are budgeted separately).
- Access roads and support facilities
- Consultants' fees and planning costs
- Administration and legal costs
- Contingency.

Sources of Capital Funding

Identify potential sources of capital funding such as:

- Local government funds
- State and commonwealth government grants
- Sale of land or existing facilities
- Contributions from potential user groups
- Debt funding
- Joint development and management agreements
- Fund-raising activities
- Donations of materials and services
- Bequests
- Sponsorship
- Private sector developers (PPP's)

For further information refer to the Department of Sport and Recreation publication Life Cycle Cost Guidelines.

FINANCIALS

Meeting the capital cost is only the starting point of funding a facility. Operating costs represent the ongoing financial obligation that will need to be met. Estimate operational costs over the long term to determine the viability of the proposed facility. Refer to the Department of Sport and Recreation publication Life Cycle Cost Guidelines.

Operating Income

Operating income should be estimated based on usage estimates (refer page 10) and anticipated enrolments in programs (refer page 11).

To estimate operating income, include revenue from:

- Program fees
- Facility hire charges
- Membership fees
- Kiosk and sports shop sales
- Equipment rental
- Vending and game machines
- Advertising space within the proposed facility
- Grants and donations
- Sponsorship
- Council operating subsidy

Note: In order to estimate income and operating costs, obtain the above information from other similar sport or recreation facilities. Be conservative in estimating income and liberal in estimating expenses.

Operating Expenditure

Operating expenses should be broken down into fixed costs and variable costs.

Fixed costs: Incurred whether the facility is being used or not, (i.e. permanent operational staff, insurance, taxes, interest and depreciation).

Variable costs: Expenses that are incurred when the facility is being used, ie utilities, program staff, fuel and supplies.

Financial projections should be made for a five to 20 year period (five years for small and medium size projects and 20 years for larger projects). To estimate operating expenditure, include costs relating to:

- Staff salaries/wages and on-costs (for all non-program staff only)
- Programs (include instructors' wages, equipment and material)
- Administration
- Auditing and insurance
- Depreciation and loan servicing costs
- Advertising and promotion
- Technical systems and utilities
- Cleaning/minor building maintenance/maintenance of surrounds (allow additional funds for minor alterations in the first 12 months of operation)
- Major building maintenance
- Cost of goods to be sold
- Lease or rental of equipment and vending machines
- Contribution for centralised administration services

  NOTE: In general, building maintenance costs to meet changes in legislation are difficult to predict and should be included in revised budgets when they become apparent.

Financial Forecasts

Financial forecasts are required to determine whether the proposed facility will be financially viable. For small and medium size projects financial statements for the first five years of operation are required. For large scale projects additional financial statements for years four to 20 are required (see Appendix B).

Prepare the following financial forecasts. Where necessary, engage the expertise of a financial/legal advisor for professional assistance.

Profit and Loss and Cash Flow Statements - Prepare monthly statements for year 1, quarterly for years 2 and 3, and annually thereafter (see Appendix C and D).

Sensitivity Analysis - Prepare annual statements for years 1, 2, 3, 4 and 5.

Break Even Analysis. Prepare annual statements for years 1, 2, 3, 4 and 5.

Cash Flow Considerations

The availability of funds throughout the planning, design and construction phases are essential. The following key points need to be determined:

- The accuracy of your estimated capital costs
- When capital expenses will be due for payment. Project your cash flow requirements for the design and construction phases
- The impact of foreseen increases in construction costs on cash flow
- How a debt will be retired
- The capability of the community to meet fundraising targets (the expertise of a professional fundraiser may be engaged to determine this) and timeframe required
- The reliability of volunteer resources
- When grant funds will be required

Sensitivity Analysis

A Sensitivity or "What if……" analysis is used to identify financial risks".

- What if… attendance is only 40%, 50% or 60% of the projected amount.
- What if… the staff costs increase by 20%
- What if… the major competitor drops its prices by 15%.

This exercise is crucial in assessing the financial viability of the proposal. The worst-case scenario needs to be budgeted for. Computer software is available to undertake sensitivity analysis. Summarise all forecasts and decide if the project is financially viable.

STAGING ALTERNATIVES

It is cheaper to construct a facility in one stage. However, if the capital and/or operating costs of the proposed facility are beyond the means of your funding sources, consider reducing the scale of the proposal, or staging construction.

By staging the development, priority services can be established first and their performance monitored before committing additional funds. Additional services and facilities can be provided when funds become available. Staging is also a viable option when not all desires/needs have demand at the same time.

Consider developing the proposed facility in stages and assess the cost/ benefit implications of this approach. State whether staging the development is an appropriate option and why.

NOTE: DSR grant applications should identify priority elements.

SUSTAINABILITY

Sustainability is about making sure what you plan to do today has a positive impact on the economic, environment and social aspects of future generations.

Ideally, when all three aspects are weighed up, the net result should be seen as a benefit as opposed to a cost. In other words, it should be expected that the proposed facility would enhance the community in all three sustainability elements.

Economic

The economic impact of developing the facility needs to be considered. Is it likely to reduce/increase the financial viability of another facility, club or business?

Are there external forces within the surrounding environment which could inhibit/ enhance the facility's financial performance? Consider the following factors:

- Existing and future competition
- Economic cycles
- Social trends
- Emerging population demographics

Consider any proposed industrial and commercial developments which may influence the demand for the proposed facility and the types of opportunities it will offer. Information may be obtained from:

- Local government Authority development and building applications.
- Department of Commerce and Trade
- Australian Bureau of Statistics
- Department for Planning and Infrastructure
- Research undertaken by Universities and Professional Associations.

Refrain from using outdated information when making future predictions.

Undertake a risk assessment to evaluate the degree of risk associated with developing the proposed facility in light of predicted economic forces. When undertaking this exercise professional assistance should be sought.

Environmental

Will the new facility consider the principles of shared use and co-location? Will global sustainability benchmarks be met in the planning and development of facilities? Responding to energy, waste and water conservation issues needs to also be considered, preferably using an ecological footprint or sustainability assessment analysis.

Social

Consider the impact a new facility will have on existing social and leisure patterns (i.e. is it likely to create a new focal point for community activity? Is it likely to create new demands or trends? Will it impact on the culture of the community?) Consider potential areas of competition and complementation.

REVISIT THE NEEDS ASSESSMENT

Re-visit the findings of the needs assessment to confirm that the finished proposal will meet the basic sport and recreation requirements of the community. It is not difficult for a proposal to get "off-track" during the course of its development and stray from its original objective.

Consider the relationship of the proposal to the future development of the municipality, sport or region. Critically examine how the facility will assist the client/s group to achieve its vision.

Check that any other developments that may have occurred since the feasibility commenced will not detract from the success of your proposal.

RECOMMENDATIONS

The information that has been gathered and assessed should be summarised to enable an objective decision regarding the proposal.

The summary should include the following components:

- State the most appropriate response in meeting the sport and recreation requirements of the community.
- State the recommendations of the draft management plan.
- Outline the details of the concept design and the preferred site.
- State the capital cost of the project and possible sources of capital funds.
- Outline the financial viability of the proposed facility.
- Detail the economic, environmental and social viability of the proposed facility.
- Recommend to implement/amend/postpone/stage/ abandon the proposal.
- Recommend time frames for the project's next stage/s and outline why these have been chosen.

6.0 Writing The Feasibility Study

Components of the feasibility study

Record the details of the study process in the order in which it was done. Use the headings of the key components to set out your report.

- Executive summary
- Background and methodology
- Organisational philosophy
- Market analysis
- Justification of the proposed facility
- Draft management plan
- Concept design
- Location rationale
- Design/technical evaluation
- Capital costs
- Financials
- Staging Alternatives
- Sustainability
- Re-visit the Needs Assessment
- Recommendations

Executive summary

The executive summary is usually found at the beginning of the report or may be presented as a separate document. It should be able to stand alone from the rest of the report. The executive summary should include:

- An overview of the proposed development.
- A summary of the major findings of the feasibility study.
- A suggested future direction and proposed action.
- Acknowledgements.

Practical hints

Consider the following practical hints when writing the report:

- Present information in a logical order.
- Use headings and sub-headings throughout the report.
- Keep it simple, concise and easy-to-read. Where possible, refrain from using industry jargon.
- Don't be selective and don't repeat information unnecessarily.
- Support your claims and use examples.

Appendices

Include any survey results, interview results, site visit reports, minutes of public meetings, technical reports, professional advice and/or other research, which is referred to, or support claims made within the study.

Independent peer review

It is desirable to obtain an independent review/ assessment of the feasibility study, especially if considering a large-scale project. The review should be undertaken by an independent (unrelated) person or organisation with relevant expertise and experience and should address the following points:

- The rationale behind the justification for the proposed facility

  Is the provision of the proposed facility the best way of meeting the community's needs for sport and recreation services? Has the merit of other feasible options been objectively and comprehensively considered?

- The practicability of the draft management plan

  Is the proposed management approach workable, achievable and cost effective? Does the management plan target the findings of market analysis?

- The suitability of the concept design and location

  Does the proposed concept design and site accommodate the management plan in the best possible way? Within the design, have the most practical and energy efficient technical systems been chosen? Does the building structure suit the climate?

- The validity of the assumptions/ projections included within the study

  Are there risks concerning the assumptions upon which the usage and financial projections are based? Is the degree of risk significant? How can the risk be mitigated?

- The economic, environmental and social viability of the proposal

  What impact will the proposed facility have on external economic, environment and social systems? Will the net affect benefit the community?

- The recommendations

  Are the recommendations supported by the findings of the study?

7.0 Conclusion

The feasibility study should provide all the information required to make a decision to support or reject a proposal to develop a sport or recreation facility. This decision will have long-term ramifications for the community and, therefore, it is important that the study is comprehensive and objective.

The feasibility study is a means to an end. That end is the involvement of the community in determining how and when collectively owned funds are going to be spent to provide opportunities for sport and recreation experiences.

Through undertaking a feasibility study the chances of developing an unsuccessful facility are minimised, and the potential for efficiency is increased.

A good feasibility study is the client's best insurance against a poor investment!

8.0 Further Reading

1. Daly, J. (2000). *Recreation and sport planning and design*. Human Kinetics.
2. Department of Sport and Recreation. (2004). *Asset management guide: sport and recreation facilities.* Perth, Western Australia: Western Australian Government.
3. Department of Sport and Recreation. (2007). *Decision-making guide: sport and recreation facilities.* Perth, Western Australia: Western Australian Government.
4. Department of Sport and Recreation. (2007). *Facility planning guide: sport and recreation facilities.* Perth, Western Australia: Western Australian Government.
5. Department of Sport and Recreation. (2005). *Life cycle cost guidelines: sport and recreation facilities.* Perth, Western Australia: Western Australian Government.
6. Rawlinsons. (2007). *Australian construction handbook 2007*. Perth, Western Australia: Rawlhouse Publishing Pty Ltd.

9.0 References

1. Ballesty, S., Orlovic, M. (2004). Life cycle costing and facility management. *Facility Management* 12 (2) p.32.

2. *The Local Government Act* [Amendment] 1995 (WA)

3. Department of Sport and Recreation. (2005). *Life cycle cost guidelines: sport and recreation facilities.* Perth, Western Australia: Western Australian Government.

APPENDIX A

CURRENT TRENDS AND ISSUES IN SPORT AND RECREATION

Some of the major trends and issues affecting the development of sport and recreation within Western Australia include:

- Changes in the nature of international and national economies, creating major challenges for the Commonwealth and States in improving program managements and funding flexibility.
- Individuals recognising the importance of sport and recreation within their lives and making choices based on a sport and recreation lifestyle.
- Increasing expectation by the community for Government to provide leadership and stability.
- People looking for new challenges and opportunities that add quality to their lives.
- Increased participation in sport and a range of recreational activities which require less structured and alternative delivery systems. This provides challenges and opportunities for established sport associations and groups.
- The need for agencies to become more efficient and effective in their operations.
- The demand on sport to meet changing community needs which requires sport associations to be more responsive and flexible and to improve their management structures, capabilities and deliverables.
- Pressures on volunteer managed sport clubs and competition from professional providers.
- An increase in co-operative and integrated approaches to the planning and provision of services and facilities.
- More sophisticated and costly facilities being built, older facilities being regenerated and more co-located and jointly provided facilities.
- Greater competition among providers for the same markets.
- The need for sport, recreation and physical eduction to have a priority in the education system.
- An increase in entertainment and spectator sport, eco-tourism and adventure-based activities and a demand for facilities and services that offer value for money.
- The need for providers to incorporate and cater to the many interests and needs of a multi-cultural society.
- A greater awareness of legal rights and the importance of safety, public liability and risk management.
- Local communities wanting and having more say in the decision-making processes.
- The impact of National Competition Policy and the requirements of the WA Local Government Act.
- Address the growing needs and requirements of the ageing “baby boomers” population.
- The requirement for an improved strategic approach to regional sport and recreation planning and provision.
- Government planning policies such as Liveable Neighbourhoods, Network City, Bush Forever are having negative outcomes for sport and recreation outcomes.
- Inflexible and inappropriate access restrictions such as water catchments, bush forever are reducing the recreational access to the natural environment.
- Land-use planning is providing inadequate priority to recreational needs, particularly in urban growth areas.
- Access to existing school facilities is difficult to achieve compared to planning for new schools.
- Increased densities in inner urban areas placing pressure on existing sport and recreation facilities.

APPENDIX B

FEASIBILITY STUDY CONTENT AND RESEARCH REQUIREMENT GUIDELINES FOR DIFFERENT SCALE PROJECTS

	SMALL PROJECTS **(UP TO $150,000)**	MEDIUM PROJECTS **($150,000 - $500,000)**	LARGE PROJECTS **($500,000 - $10,000,000)**
Review Background information	• Development plan – organisational • Organisational policies and plans • Needs assessment	• Strategic recreation plan – organisational • Corporate policies and plans • Sport and recreation needs assessment • Facility specific needs assessment (optional)	• Strategic recreation plan – regional and organisational • Corporate policies and plans • Sport and recreation needs assessment • Facility specific needs assessment
Organisational Philosophy	• Values and aims • Desired outcomes • Policy and strategy	• Values and aims • Desired outcomes • Policy and strategy	• Values and aims • Desired outcomes • Policy and strategy
Market Analysis	• Competition analysis • Community consultation • Demongraphic data	• Socio-demographic data • Competition analysis • Community consultation	• Socio-demographic data • Competition analysis • Community consultation
Justification of the proposed facility	• Review need identification process/ needs assessment	• Review need identification process/ needs assessment	• Review need identification process/ needs assessment
Draft Management Plan	• Usage estimates • Programs and services • Staffing	• Management structure • Usage estimates • Programs and services • Staffing • Marketing strategy • Finance and admin • Maintenance	• Management structure • Usage estimates • Programs and services • Staffing • Marketing strategy • Finance and admin • Maintenance

	SMALL PROJECTS **(UP TO $150,000)**	MEDIUM PROJECTS **($150,000 - $500,000)**	LARGE PROJECTS **($500,000 - $10,000,000)**
Concept Design	• Core elements • Management needs • Functional requirements • Plan / layout • Finishes	• Core elements • Management needs • Functional requirements • Plan and layout • Finishes • Sustainable elements	• Core elements • Management needs • Functional requirements • Plan and layout • Finishes • Sustainable elements
Location Rationale	• Environmental • Statutory and planning regulations • Accessibility • Demographic	• Joint use and co-location • Environmental • Statutory planning and regulations • Cultural and heritage • Accessibility • Demographic • Social impact – integration • Transport	• Joint use and co-location • Environmental • Statutory planning and regulations • Cultural and heritage • Accessibility • Demographic • Social impact – integration • Transport
Design/ Technical Practicability	• Evaluation of technical design options	• Plant and technical systems • Evaluation of technical design options	• Plant and technical systems • Evaluation of technical design options
Capital Costs	• Capital cost estimates • Sources of capital funds • Capital cash flow	• Capital cost estimates • Sources of capital funds • Capital cash flow • Life-cycle analysis	• Capital cost estimates • Sources of capital funds • Capital cash flow • Life-cycle analysis
Operating Income and Expenditure	Financial forecasts – 1 to 3 years • Cash flow analysis • Profit and loss	Financial forecasts – 5 years • Cash flow analysis • Profit and loss • Breakeven analysis • Sensitivity analysis	Financial forecasts – 20 years • Cash flow analysis • Profit and loss • Breakeven analysis • Sensitivity analysis • Life-cycle analysis
Staging Alternatives	N/a	• Staging options • Capital cost estimates	• Staging options • Capital cost estimates

	SMALL PROJECTS **(UP TO $150,000)**	MEDIUM PROJECTS **($150,000 - $500,000)**	LARGE PROJECTS **($500,000 - $10,000,000)**
Economic, Environmental and Social Viability	• Economic forecast – external • Risk assessment • Social/cultural impact	• Economic forecast – external/internal • Risk assessment • Social/cultural impact • Environmental impact	• Economic forecast – external/external • Risk assessment • Social/cultural impact
Re-visit Needs Assessment	• Proposal addresses identified needs	• Proposal addresses identified needs • Relevant to organisational vision	• Proposal addresses identified needs • Relevant to organisational vision
Recommendations	• Option selection • Recommendations	• Option selection • Recommendations	• Option selection • Recommendations

Refer to DSR's *Decision Making Guide – Sustainability Matrix Asessment* Guidelines for further assistance.

APPENDIX C

SAMPLE PROJECTED PROFIT AND LOSS PRO FORMA

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Ongoing
INCOME					
Program Fees					
Room Hire					
Kiosk / Bar sales					
Proshop Sales					
Vending Machine Sales					
Pay Phone					
Fundraising					
Sponsorship					
Donations					
Grants					
Other					
Total Income/Gross Profit [A]					
EXPENSES					
Employees' wages					
Equipment					
Advertising					
Stationery/Office Supplies					
Printing and Postage					
Telephone/fax					
Power					
Kiosk/bar stock					
Proshop stock					
Vending machine stock					
Freight					
Building maintenance					
Vehicle					
Security					
Insurance					
Loan/lease repayments					
Other					
Total Expenses [B]					
Net profit/loss [A-B]					
Depreciation					
Net profit/loss after depreciation					

APPENDIX E

GLOSSARY OF PLANNING TERMS

TERM	DEFINITION
Capital Costs	Costs associated with planning, establishing and constructing the facility
Client	The owner of the facility
Co-Location	Locating/integrating two or more facilities on the same or adjacent sites
Community Consultation	The process of involving/communicating with stakeholders, potential user groups and other community groups and individuals within the facility planning process
Concept Design	Preliminary drawings/illustrations of the facility which convey the concept of the project. Indicates facility components, approximate dimensions and technical systems
Concept Plan	The phase of the feasibility study which develops the concept of the project. Includes: facility justification; market analysis; draft management plan; concept design and location rationale
Contract Documentation	The various legal documents and briefs which detail the contractual agreement between the client and the builder/construction company
Design Brief	A set of instructions from the client to the designer/design team outlining what the client expects the facility to provide. It governs the design and construction of the facility.
Design Development	The detailed development of the schematic design of the facility. Includes an independent energy audit, 'firming up' capital costs and a comprehensive design development report.
Facility Components	The various spaces/functional areas within the main structure of the facility

TERM	DEFINITION
Facility Planning Process	The entire/complete process of planning a facility, incorporating the five key phases: needs assessment; feasibility study; design; construction and post-occupancy evaluation
Facility Specific Needs Assessment	An 'in-depth' assessment of the need for a particular type of recreation facility. Usually required to justify the need for large complex facilities. Undertaken prior to embarking on a feasibility study
Feasibility Analysis	The phase of the feasibility study which tests the workability/practicability/cost effectiveness/ economic and social impact of the concept plan
Feasibility Study	A critical assessment of a proposal to build or upgrade a facility. Incorporates concept planning and feasibility analysis. Enables an informed decision about whether to proceed with developing the proposed project.
Location Rationale	The process of assessing and selecting the most suitable site for the facility. Includes a site analysis and a site survey.
Management Plan	An outline and discussion of management issues providing direction on how the facility will be managed and utilised. Can be prepared for a proposed or existing facility. In the case of the proposed facility, a draft management plan is prepared as part of the Feasibility Study. The management plan is further developed if and when the project enters the design phase.
Market Analysis	An analysis of the social and economic fabric within the facility's catchment area. Includes an assessment of socio-demographic characteristics, participation trends and of other providers of similar services/facilities.

TERM	DEFINITION
Needs Assessment	A research study which aims to identify any lack or over supply of recreation facilities and services, to indicate what is required. May be generic or facility specific.
Organisational Philosophy	The values of the client organisation which support the provision of the facility
Post Construction Analysis	A study undertaken once a facility is operational. Its purpose is to compare projections/assumptions made in the Feasibility Study against the actual performance of the facility and to explain any variances.
Risk Assessment	The process of identifying, rating and evaluating risks with a view to eliminating or reducing them.
Social Viability	An assessment of the social impact of the facility with a view to achieving a net gain/benefit.
Schematic Design	Scaled detailed working drawings produced by a professional designer/architect. Usually includes a cost plan – details of associated capital costs.
Stakeholders	Those parties which have an interest in the facility.
Strategic Planning	An organisational planning approach which identifies a future direction and vision, and strategies for achievement.
Strategic Recreation Plan	A clearly documented and approved plan of intentions that will guide policy and programs achieving sport and recreation provision. Includes corporate aims and objectives, a review of existing provision, an assessment of needs and opportunities, and proposed developments.
Technical Systems	Those engineered aspects of the facility design which control the various functions of the facility [ie lighting, airconditioning, heating, sanitation and filtration, reticulation etc].
Terms of Reference	The parameters/limitations of a study or contract.

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