

ECONOMICS AND FINANCIAL MODEL

EXECUTIVE SUMMARY

Since the State Government announced its proposal to grant part of Callan Park to Leichhardt Council, Council has tried to establish the financial parameters within which it could sustainably accept such a lease. Council estimates that it will cost in the region of \$5.5m per annum to operate and maintain Callan Park.

Council's analysis of the financial implications of leasing Callan Park, has to date focussed on:

- The existing state or repair of buildings to be leased, including heritage buildings;
- Estimating the cost of restoration and the annual repair costs of the buildings;
- The existing state of visible and buried infrastructure including roads, pathways, sewerage, lighting and stormwater;
- Estimating the cost of restoration of these services and the recurrent maintenance costs of these services;
- The state and significance of trees and vegetation within the leased area;
- Estimating the cost of remedial management works and recurrent maintenance costs;
- The costs of upgrading the remainder of the public domain:
 - To meet existing urgent repair; and
 - To improve amenity and satisfy Council public domain standards.
- The likely operational costs to be incurred in the management of the Park and buildings; and
- Estimating income from assets with leasing potential.

This analysis has been based on Council's knowledge and experience of managing other parks and heritage buildings within Leichhardt Local Government Area, enquiries with existing and former occupants and managers of the land, and various documents, advice and reports obtained in relation to the site from consultants and government agencies.

The Master Planning process will take this analysis into account. It will also investigate:

- The existing tenancy arrangements for the site, including lease and licence terms, and potential income from future Master Plan options;
- The cost of remediation and risk management of contamination on the site;
- Implications of intensifying land uses within the Park and buildings;
- Economic implications arising from community consultation;
- Economic and feasibility implications of Master Plan options;
- Detailed cash flow and sensitivity analysis of the preferred option; and
- Funding shortfalls and potential funding sources.

The financial model will also need to consider the financial implications to Council of alternative management arrangements for Callan Park. SHFA have proposed that transfer of care, control and management of Callan Park be undertaken initially through a Heads of Agreement between Council and State Government. The Draft Agreement nominated that whilst Council will be transferred, under a 99 year lease, only land and buildings currently managed by SHFA, the final boundaries will be determined by the Master Planning process.

Notwithstanding this, Council has not entered into a long term binding lease commitment for Callan Park, and will not consider doing so until the Master Planning process is complete. Given Council have not agreed to a model for management and governance of Callan Park, there are various options still available to Council. A trust arrangement, similar to the Centennial Park Trust, is one such alternative.

The outcome of additional consultation, research and investigation will be a revised financial model which will be used to test the financial implications, including funding of the preferred option, with the aim of establishing a viable option for a sustainable leasehold tenure of the site by Council.

BACKGROUND

A timeline of events surrounding previous assessments of potential land use changes, previous Master Plans, and the transfer of care, control and management of Callan Park is provided in Appendix 1.

STRENGTHS

Council Knowledge and Experience

The financial model will rely to a large extent on Council's historical costs of managing other parks in the municipality. Council has detailed experience of the operational requirements of foreshore parks and heritage buildings having managed heritage assets and adjoining parkland for many years. As a result, Council has prepared a detailed budget of anticipated expenditure which has been used as the basis for negotiations with the State Government to date.

The existing manager, Sydney Harbour Foreshore Authority (SHFA) has also provided details of its expenditure at Callan Park but source data on existing tenants and rents is yet to be fully understood. Consultant input during the Master Plan process will also yield more detailed information on anticipated costs and revenues for potential land use options.

Assets

Callan Park offers significant and unique assets in a special location, some of which are currently producing income, but many of which are currently vacant and in need of significant repair and maintenance. The site contains 72 buildings, encompassing 34,000sqm of floor area and an estimated replacement value of \$90m. The Master Plan will need to consider the value of these assets both from a heritage perspective and as a potential source of income.

Subject to the constraints of uses, floor space and height under the Callan Park Act (2002) and Leichhardt LEP 2000, income may be derived from sub-leasing these buildings to not-for-profit organisations for community uses as defined under the applicable planning instruments. These may include public health services, child minding, boarding houses, indoor recreation and their associated car parking, amongst other uses.

Some buildings with little income or heritage potential and in disrepair, may offer opportunities for demolition and in turn will create development opportunities elsewhere (Callan Park Act prohibits additional floorspace or loss of open space or development outside of existing footprints). Or simply these buildings may be demolished to create open space, reducing ongoing costs. However, some non-heritage items may offer more income potential due to the ability to alter and extend internally. Therefore the mix of assets to be retained within the Master Plan options will determine the likely costs and revenues derived from the assets and the shortfall to be funded from external sources.

Revenue Sources

The Master Planning process creates the opportunity to investigate a range of potential funding sources for Callan Park. These may include general rates, Section 94 Contributions, Government grants and special rates. The extent of external funds required to meet the needs of Callan Park will be identified by the financial modelling of Master Plan options.

CONSTRAINTS

Heritage

The heritage nature of the assets at Callan Park places constraints on the ability to adapt these buildings for special uses and therefore the potential to derive income from tenants. Even where a tenant can use the building in its existing form, its configuration may not be ideal and therefore income receivable may be discounted for this reason. The net income may also be reduced by the additional costs of maintaining sensitive heritage buildings.

Callan Park Act (2002) and Other Legislation

The Callan Park Act (2002) invokes former environmental planning controls contained in SEPP 56 and Leichhardt LEP 2000 as at the date of enactment (2002). This requires development approval of even minor uses by Council such as fit-outs and change of use within the same category. It also restricts uses to being not for profit, which may reduce the income potential of the assets.

Permitted development within the confines of the Act are for: health facilities, educational and community facilities. Any replacement buildings must be erected within the footprints or building envelopes of existing buildings.

With regards to leases, licenses and management agreements, Section 6 of the Act dictates:

- A lease or a license allowing the use of a building, part of a building, any adjoining land needed to enable use of a building in Callan Park, or any land in Callan Park may be granted with consent of the Minister;
- The term of any such lease or licence (including any further term under an option for renewal) must not exceed 10 years;
- The Act does not prevent leases or licences being granted for terms of (or successive terms totalling) more than 10 years if assented by Parliament;
- The Act does not affect any easement, lease or licence that was in force immediately before the commencement of the Act or affect the granting of a further lease under an option for a lease commenced previous to the Act; and
- The care, control and management of Callan Park, or any building or part of Callan Park, may be contracted out with the consent of the Minister but only to either Council or a prescribed Trust.

Funding

The long term funding of Callan Park will be the responsibility of Council using its general rate base and other funding sources such as Section 94 contributions and Government grants. However the recent cap on developer contributions announced by the NSW Government may in fact remove this option where contributions are already at this level or require amendments to the existing plan.

Income derived from the site from leases, licences or casual use of facilities will contribute to reducing the overall cost to ratepayers of Leichhardt. However, the extent of income currently derived from these sources is not yet clear, and neither is the relationship between income derived on the site, and the contribution this makes to Council's ongoing management of the Park.

Health NSW and Sydney South West Area Health Service (SSWHS) have provided a list of related NGO and SSWAHS tenancies they manage at Callan Park (e.g. Sids & Kids, WHO, Aftercare, MHCC, NSW Ambulance, UTAS, nurses accommodation). SHFA have also identified buildings under their management. However any income derived from these occupants is unknown.

Notwithstanding this, in the short term Council considers that the NSW Government should continue to exercise its responsibilities for the care, control and management of the site and should maintain funding levels until the Master Plan has been completed.

In response, the Heads of Agreement drafted by SHFA (further explained in Section 5) indicated they would provide financial assistance to Council for the relevant remainder of the 2009-10 financial year to assist Council with the cost of contracting for the care, control and management of Callan Park. The financial assistance will be equivalent to SHFA's current \$1.8m annual operational budget for Callan Park, to be provided on a pro-rata basis for the current financial year contingent on the date upon which Council commences the management of Callan Park.

Available Information

At this stage of the Master Plan, much information regarding existing tenants, associated lease terms and rents receivable has not been readily available and this will be critical to the generation of a realistic financial model which can be used both to test Master Plan options and for the ongoing management of Callan Park by Council.

OPPORTUNITIES

Increased Revenue

While existing revenue is being received, it is likely that there will be opportunities to increase rents and licence fees in conjunction with finding new uses and tenants for unoccupied buildings. The guidelines of the Callan Park Act (2002) to only permit land uses associated with health, community and education should not necessarily always result in discounted or subsidised rents. Subject to the provisions of the Callan Park Act (2002), there may also be opportunities to generate casual revenue through one-off events.

Reduced Costs

Council's management of adjoining parkland and facilities creates a key opportunity to reduce operational costs. It should be possible to identify some cost savings from the extended management area created by transfer of management of Callan Park to Council.

Leases are limited to a maximum of ten years unless assented to by Parliament. On the assumption that the proposed 99 year lease will include appropriate delegation for Council to sub-lease premises without approval, there may be opportunities for tenants on long term leases to contribute to capital improvements.

RISKS

Transfer of Care, Control and Management to Council

In 2009, SHFA proposed that transfer of care, control and management of Callan Park be undertaken initially through a Heads of Agreement, outlining the framework for finalising discussions between Council and SHFA.

The Draft Agreement nominated that the final boundaries of that part of Callan Park to be transferred to Council under a 99 year lease be determined by the Master Planning process. As a result the status quo will apply to boundaries of land occupied by current landowners and managers at Callan Park (see Appendix 2). Notwithstanding this, that part of Callan Park that Council will contract to care, control and manage is to be that part of Callan Park currently managed by SHFA.

This arrangement implicates the structure of the financial model to be prepared as part of the examination of options for Callan Park. The financial model will test the financial sustainability of options for the site and their financial implications to Council. However, if the exact extent of land and buildings to be managed by Council is yet to be determined, the costs and revenues borne and received by Council and may also be relatively unknown until a final option is selected, and Council and SHFA agree to a final management arrangement.

Notwithstanding this, the Draft Agreement clearly states that regardless of boundary adjustments the intention is that Council will only be transferred that land currently managed by SHFA. This does not include the NGO precincts or precincts managed by SSWAHS. It is assumed at this stage that Council would therefore not gain any income generated from these precincts, and neither would they be responsible for costs to land and buildings within these precincts, although this is not confirmed.

Furthermore, the Draft Agreement nominated the expectations of the Master Planning process:

- Develop a single Master Plan for the entire Callan Park site.
- The Master Plan should be prepared by Council.
- Ensure all current landowners and managers of Callan Park (Health Administration Corporation, NSW Maritime, NSW Ambulance, University of Sydney and Ministry of the Arts) and SHFA are provided with a full and proper opportunity to participate in the preparation of the Master Plan.
- Community consultation is to be managed by Council.
- Include the preparation of a Plan of Subdivision of the entire Callan Park site. The Plan is intended to be the basis upon which final leasehold arrangements are created for Council and all current landowners and managers of Callan Park.
- Consider the Environmental Site Assessment being prepared by Ryall Environmental Pty Ltd for SHFA, which will provide a strategy for the assessment and management of potential contamination currently on site.

Due to financial risks associated with Council entering into a lease arrangement for Callan Park, Council will not enter into a binding commitment for long term management of Callan Park until the Master Planning process is complete.

Operational Costs

The agreement with NSW Government will see an increase in the entire open space network of Leichhardt LGA from 84ha to 124ha. Council has also estimated that the existing buildings on the site will more than double its building portfolio replacement cost up to \$156m and generate significant ongoing recurrent costs associated with the maintenance of these buildings for the next 99 years.

It is important that any cyclical maintenance, which has been neglected, is included either in increased annual maintenance costs or in an upfront capital restoration cost. With a large number of heritage buildings it is possible that the costs will exceed allowances and this risk will be heightened by the deferred cyclical maintenance of such buildings.

Capital Costs

There will be significant costs to bring online new open space and buildings areas to a standard commensurate with both the communities needs, but also acceptable levels in terms of contemporary asset management standards. Significant costs have been recognised by Council in its assessment of urgent repairs and deferred cyclical maintenance. Whilst not all these costs may be urgent, they will require a pro-active capital program to address issues identified.

Capital costs are difficult to assess for heritage buildings and could exceed allowances provided by Council. Council estimates that the entire \$90m replacement cost of buildings within Callan Park could be spent on refurbishing heritage buildings. Seawall maintenance has been confirmed as a responsibility of Maritime NSW but subject to dollar for dollar contribution from Council.

Preliminary investigations have determined urgent works are in the order of \$1m for appropriate risk management and to prevent further degradation to existing assets within Callan Park.

Revenue

New and appropriate revenue generating land uses, considered through the Master Planning process, may require an amendment to the Callan Park Act (2002) in order to be realised. However, it is recognised that this may not be a desirable outcome and may not be achievable within the political context.

Environmental Management

In some parts of the site, contamination has been identified as an issue and to avoid health risks the contamination must be adequately remediated and managed in accordance with the Contaminated Land Management Act (1997). Appropriate remediation of any contamination is therefore a priority, and the responsibility for the cost rests with the former polluters under the Act. Remediation is a complex issue and costs can be very high depending on the remediation strategy and the perceived health risks.

EXPECTATIONS

Financial Sustainability

The outcome of the financial modelling should identify the most financially sustainable Master Plan option developed by the community. Forecast future cash flows will be developed to reflect options which incorporate various income and expenditure scenarios and the net present value of these cash flows can be compared to establish a ranking from a financial perspective.

In order to incorporate this ranking in a broader assessment of the costs and benefits of each option, it may be desirable to undertake multi-criteria analysis which seeks to combine the assessment of social, environmental and economic factors. However, the fundamental criteria that will enable Council to sustainably manage Callan Park will be financial, and analysis must therefore be heavily weighted for this factor.

The expectation of Council is that the community's preferred Master Plan option will be financially sustainable taking into account community expectations, stakeholder requirements and long term internal and external funding sources.

Transfer of Care, Control and Management to Council

SHFA have proposed that transfer of care, control and management of Callan Park be undertaken initially through a Heads of Agreement between Council and State Government. The Draft Agreement nominated that whilst Council will be transferred, under a 99 year lease, only land and buildings currently managed by SHFA, the final boundaries will be determined by the Master Planning process.

Notwithstanding this, Council has not entered into a long term binding lease commitment for Callan Park, and will not consider doing so until the Master Planning process is complete. Given Council have not agreed to a model for management and governance of Callan Park, there are various options still available to Council for negotiation with State Government. A trust arrangement, similar to the Centennial Park Trust, is one such alternative.

Bibliography

To inform this discussion paper, the following background documents were reviewed:

- Callan Park (Special Provisions) Act 2002 No 139
- Callan Park Land Use Plan, prepared for SHFA (November 2007)
- Callan Park Precinct Financial Summary, YTD 2007/2008 (May 2008)
- Minutes of Extraordinary Meeting of Leichhardt Council. Ref: C396/08 (November 3, 2008)
- Callan Park Secured for the Future, News Release, NSW Government (October 22, 2008)
- Callan Park Report, Leichhardt Council. Ref: F08/00220 (October 29, 2008)
- Letter to the Hon. Kristina Keneally MP from Councillor Jamie Parker (October 30, 2008)
- Callan Park Report, Leichhardt Council. Ref: F08/00220 (November 21, 2008)
- Letter to Councillor Jamie Parker, Mayor from the Hon. Kristina Keneally MP (November 2008)
- Minutes of Callan Park Task Force Meeting at Leichhardt Council (December 10, 2008)
- Letter to the Hon. Kristina Keneally MP from Councillor Jamie Parker (December 2, 2008)
- Letter to Councillor Michelle McKenzie, Deputy Mayor from the Hon. Kristina Keneally MP (unspecified date 2009)
- Minutes of Callan Park Task Force Meeting at Leichhardt Council (March 23, 2009)
- Letter to Councillor Jamie Parker, Mayor from the Hon. Kristina Keneally MP (July 2009)
- Letter to General Manager Peter Head, from Robert Domm CEO SHFA (September 24, 2009)
- Draft Heads of Agreement between Leichhardt Municipal Council and Sydney Harbour Foreshore Authority - Agreement to Facilitate the Transfer of Land by 99 Year Lease over part of Callan Park from the NSW Government to Council and to Resolve Associated Matters (September 2009)
- Minutes of Ordinary Meeting of Leichhardt Council. Asset Management Strategy. Ref: C285/09 (June 23, 2009)
- Leichhardt Council Asset Management Strategy & Policy (2009)
- Letter to the Hon. Kristina Keneally MP from Councillor Jamie Parker (March 22, 2010)

Appendix 1 – Background

1983 – Richmond Report recommends scaling down of Rozelle Hospital and investigation of alternative uses for under utilised buildings.

1988 - Barclay Report sets out standards for psychiatric hospitals and community facilities. The Blue Print for Health sets out a capital works programme to meet recommendations of Barclay Report. Construction of new hospital buildings and phasing out of Kirkbride Block for Psychiatric care. Garry Owned House repaired and adapted for use by the NSW Writers Centre.

1989 – NSW Department of Works invited to prepare Master DCP for Rozelle Hospital for future development of site in keeping with Blue Print for health.

1992 – Kirkbride block leased to University of Sydney for occupation by Sydney College of the Arts.

2001 – Minister for Urban Affairs and Planning informs Leichhardt Council, the Minister will now be the consent authority for development at the Rozelle Hospital site. Council resolves to provide coordinating support for production of a community vision for Callan Park.

2002 – The Urban Design Advisory Service prepares the Draft Master Plan for Rozelle Hospital for the site owners, NSW Health. The proposal includes use of parts of the site for private residential purposes. Proposal also includes the construction of a purpose built mental health unit at Concord Hospital to replace the Rozelle facility. Council, Friends of Callan Park and community oppose the plan. In October 2002, in response to community concerns, the Draft Master Plan is withdrawn by NSW Government.

2002 – The NSW Parliament subsequently assented the Callan Park (Special Provisions) Act 2002 No. 139. The Act amongst other things aims 'to ensure that the whole of Callan Park remains in public ownership and subject to public control'.

2003-2004 – Leichhardt Council, Friends of Callan Park and others continue to discuss the importance of retaining a mental health facility at Rozelle Hospital and the need to plan for the future of the site with NSW Government.

2004 – Leichhardt Council resolves to establish a taskforce chaired by the Mayor, Councillors, friends of Callan Park, and other nominees to pursue adequate government funding and community representation for the practical establishment of the Callan Park Trust and to initiate the process of Master Planning the site in line with the community vision previously adopted.

2005 – Leichhardt Council moves that NSW Government reaffirm the position that Callan Park remain as a specialist mental health facility and reaffirm the establishment of a trust for the ongoing management of Callan Park, and that the Minister for Infrastructure and Planning release promised funds for the development of the Callan Park Master Plan.

2006 – Leichhardt Council renews its commitment to development the Callan Park Master Plan and continuing to pressure the NSW Government to retain and upgrade the psychiatric hospital at Callan Park.

2007 – A Community Reference Panel is established by the Minister of Planning to deliver feedback on proposals for the future of Callan Park. The Panel is to comment on Master Plan and tenancy proposals put forward by the University of Sydney and NSW Health.

2007 – SHFA appointed to undertake the preparation of a Master Plan for Callan Park. SHFA appoints Hassell and a team of consultants to prepare a Draft Land Use Plan. The purpose of the Land Use Plan was to provide the framework for guiding the ongoing management and possible future uses of Callan Park. The key decisions that informed future uses under the Land Use Plan were:

- NSW Government's decision to relocate specialist mental health services from Rozelle to Concord Hospital (the relocation to a new purpose built facility to have occurred in 2008);
- The Minister for Planning, University of Sydney, and SHFA entered into a non-binding Memorandum of Understanding to explore the expansion of higher education services at Callan Park; and
- NSW Government's decision to retain a Non Government Organisation (NGO's) presence at Callan Park.

The Land Use Plan examined options for improving public access, open space, heritage conservation and landscape management resulting from the possible use of portions of the site by the University of Sydney and retention of a number of NGO's. It also sought to articulate a vision for the site that accommodated an expanded presence for the University of Sydney.

Through the Land Use Plan, the University would invest over \$300m in Callan Park over the long term, and would have been responsible for maintaining and restoring Callan Park's built and landscape heritage. Adaptive reuse of buildings for expanded educational purposes, additional sporting fields, improved open space, student housing, and the collation of existing and new NGO's into a defined precinct were proposed under the Plan.

Leichhardt Council resolved to object to the proposed Land Use Plan because:

- The Plan was predicated upon the relocation of public health services for the mentally ill away from the current Callan Park location;
- The bulk of the site would be used by the University of Sydney rather than a psychiatric hospital; and
- The Land Use Plan proposes a substantial increase in floorspace which would lead to overdevelopment of the site.

October 2008 – NSW Government announced that:

- The NSW Government would grant control, care, and management to Leichhardt Council through a 99 year lease;
- 40ha of the 60ha of the Callan Park site would be transferred to Leichhardt Council;
- The University of Sydney would retain its 99 year lease on the Kirkbride buildings;
- The land to be transferred to Council includes the waterfront, playing fields, and central parkland as adjacent to Wharf Road; and
- The NSW Ambulance Services, NSW Writers Centre, Rozelle Child Care Centre, and low cost nursing housing will stay on site.

November 2008 - Leichhardt Council resolved that Council negotiate a Memorandum of Understanding with NSW Government that should include:

- A transitional agreement with State Government for it to continue to have care, control and management of the site and to maintain funding levels until the Master Planning process is complete;
- A commitment from State Government to fund the Master Plan;
- An undertaking from State Government to provide Council with all previous studies; and
- A commitment from State Government to fund: immediate remediation costs identified in the Remediation Action Plan(s); the long term capital upgrade costs; implementation of the Master Plan; and, the ongoing long term maintenance of the site.

Council also resolved that the legal structure for the long term care, control and management of Callan Park could include a lease, contract with Council or independent trust.

November 2008 – Leichhardt Council estimates:

- Year 1 costs for site investigation, preparing and negotiating preliminary agreement with NSW Government, remediation investigations and community consultation = \$1.56m

- Year 2 costs for preparation of Master Plan and negotiating long term agreement with NSW Government = \$990,000
- Year 3 costs of implementation of the finalised Master Plan and the long term management arrangement with NSW Government = unknown.
- One off urgent and immediate physical works = \$1.07m
- Recurring ongoing costs to Council = \$5.372m per annum if all 53 buildings remain in the proposed transfer, or \$2.5m per annum excluding any building maintenance and sea wall costs.

Council budgets that the preliminary costs to undertake the Master Plan plus numerous investigations such as for contamination are in the order of \$2.55m. Council seeks commitment from NSW Government to fund this work.

Council estimates the recurrent cost of maintaining Callan Park is in the order of over \$5.5m per annum. Therefore, in the short term Council considers that the NSW Government should continue to exercise its responsibilities in relation to the care, control and management of the site and that NSW Government should maintain funding levels until the Master Plan has been completed and the future uses determined.

Due to financial risks associated with Council entering into a lease arrangement for Callan Park, Council resolve that no binding commitments be made with regard to the long term arrangements for Callan Park until the Master Planning process is complete.

July 2009 – SHFA assesses the mechanisms to ensure that the local community, through Council, are transferred care, control and management of Callan Park. SHFA proposes that this be done initially through a Heads of Agreement between the parties, a draft of which is provided to Council for consideration. The Agreement outlines the framework for the finalisation of the discussions between Council and SHFA and will facilitate the execution of all necessary legal documentation. In the interim, SHFA will continue to be responsible for the care and maintenance of relevant areas of Callan Park.

September 2009 – SHFA inform Council they will provide financial assistance to facilitate Council's care, control and management of Callan Park in the order of \$1.8m per annum to year end June 2011.

