

# GUIDELINE FOR MAJOR CAPITAL WORKS



## 1. Purpose

This Guideline aims to assist ClubsNSW Members dealing with major capital works projects by:

- a) setting out the main steps that should be followed in evaluating, planning and managing capital works projects;
- b) considering the key questions that need to be made at various stages; and
- c) describing the main criteria for selecting outside experts to assist with the project.

Given the wide variety of types and sizes of Clubs, the term "major" is a relative one. By the same token, projects vary in complexity, size and importance. (For smaller Clubs, replacing carpet in the bistro may represent a major expenditure whereas for a larger Club, it may not.)

The resources spent on appraisal of projects should be in proportion with the cost of the project, its degree of complexity, risk and the size of the Club. In general, more detailed appraisal criteria should be applied to projects which:

- a) are estimated to have a capital cost in excess of \$500,000 or 2.5% of last audited total revenue;
- b) involve complex or specialised issues or untried technology; or
- c) are unique and unprecedented in the Club industry.



## 2. Application

These Guidelines apply to all Boards of Clubs and their management teams from 1 July 2005.

## 3. Definitions

"**Disposal of land**" as per the Registered Clubs Act 1976 means the granting of a lease or licence for a period of more than 3 years; the granting of an option to buy land from the Club; and the termination of a lease or licence or a sublease or sub-licence.

"**EBITDA**" means earnings before interest, taxes, depreciation and amortisation.

"**Fixed assets**" are tangible Club assets such as land, Club buildings and facilities, accommodation and sporting facilities.

"**Major capital works**" are improvements, replacement or additions to Clubs' fixed assets.

## 4. Background

Among the most important decisions Clubs make are those relating to refurbishments, extensions or other major capital works.

Clubs rely on improvements to fixed assets such as buildings, plant and equipment, parking, etc to provide services to members and attract new patronage.

Major capital works projects involve a combination of materials, plant, equipment and labour and can include, for example:

- a) New equipment (e.g. air conditioning)
- b) Refurbishments (e.g. carpeting, kitchen fit-out)
- c) Extensions



d) Redevelopment of Club land (e.g. residential development)

## 5. Guiding Principles

Major capital works should be commissioned and implemented in the best interests of Club members in line with these principles:

- a) Projects should be properly defined, documented, cost planned and approved;
- b) Projects should be subject to appropriate contracts with the chosen supplier;
- c) Club members should be provided information and given opportunities to comment at regular intervals during the planning and execution of major capital works projects;
- d) The Board of Directors should act diligently and in the best interests of Club members in approving and overseeing major capital works projects;
- e) Directors should avoid any conflicts of interest in relation to a capital works project of the Club;
- f) Proper processes should be used to appoint third parties. Where non-price criteria are used to select these third parties, these criteria should be documented; and
- g) Legal requirements should be adhered to.

## 6. Disposal of Land

There are now strict controls on the disposal of Club land.

If the project involves the disposal of Club land, it should be conducted in accordance with Sections 41J and 41O of the Registered Clubs Act.

## 7. Preliminary Appraisal

All major capital works projects should be properly defined. This is a step-by-step process commencing with an initial brief, conceptual options with approximate cost estimates and early feasibility analysis. The systematic appraisal of all major capital works projects helps ensure the best choices are made and the best value for money is obtained.

Before embarking on major capital works projects, Club directors and management need to carefully

consider and document their justification for planned expenditure. However, it is not enough to be satisfied the investment is justified in terms of need; it is also necessary to ensure that it produces its planned benefits to Club Members and the wider community.

The preliminary appraisal should include a clear statement of the need which the project is designed to meet and how this will be achieved. It should identify all realistic options, including the option of doing nothing and, where possible, quantify the key elements of all options. It should assess the costs and benefits of all options, identify the preferred one, and recommend whether its benefits are sufficient to warrant incurring the costs. Costs include the initial capital cost and the ongoing costs generated by the use of the capital asset.

### Informing Members

Club members should be informed during the project's preliminary appraisal and provided an opportunity to comment on the proposal well before any decision is made to proceed. At a minimum, the information provided should address "4w's" (what, when, where, and why). They should also be provided information and given opportunities to comment at regular intervals during the planning and execution of major capital works projects.

### Avoiding Premature Commitments

All involved in the appraisal and management of projects should guard against the danger that when a project is mooted, it is given a degree of premature commitment. This should be avoided. A sequence of considered decisions generally will lead to progressively greater commitment of resources, but an irrevocable commitment to a proposal should only be made after all appraisal stages have been satisfactorily completed and final approval obtained. These decision points should be clearly noted in the minutes of Board and or relevant Committee meetings.

### Appropriate Amenities

Whilst it is recognised that Clubs need to be visually appealing and offer up to date or advanced facilities and amenities, Clubs should assess the level of any special features against their member/community expectations of what is reasonable in a Club environment<sup>1</sup>.

### Ability to Pay

Before moving on to a detailed appraisal of the project, the Club needs to consider its capacity to pay for the project. It should be recognised at the outset that major capital works projects involve the Club investing in additional operating assets. If the Club intends to rely on a financial institution for funding, an initial approach should be made at this stage to assess likely repayments.

At this stage, Clubs should conduct an assessment of the financial impact of the planned major capital works project. This assessment should include:

- a) profit and loss projections showing the impact of the project on the main revenues and costs of the Club;
- b) balance sheet projections showing the impact of the project on the finances of the Club; and
- c) cash flow analysis; showing the impact of the project on cash flow.

While the assessment does not have to be extremely detailed at this stage, it should be recognised a more accurate analysis will improve the confidence of members in the viability of the project and the Board's ability to deliver it.

## 8. Detailed Appraisal

If the preliminary appraisal is favourable, the proposal is further developed and defined then displayed to members for feedback.

At this stage, the Club should answer the following questions:

Q1 – Building upon the analysis done during the preliminary appraisal, what is the justification for the project? Clubs need to consider in detail:

- a) affordability;
- b) benefits to members;
- c) increase to patronage/revenue;
- d) benefits to community;
- e) special features being considered;
- f) necessity such as market demands, compliance upgrade, wear and tear, diversification of income, operational efficiencies, maintenance problems, etc; and
- g) conformity with the Club's medium to long term business plans and goals.

Q2 – Is there any design component? Clubs need to consider the design in the form of drawings and/or specifications are needed to obtain approvals from authorities (if required) and to describe quality, extent, visual and other requirements of the Club.

Q3 – Does the Club have the resources to manage, supervise and accept construction risk? It often requires a high level of expertise to properly design, document and construct. Managing capital works projects is not part of Clubs' core activities, so outside expertise may be required. In determining the Clubs role, the Board should be aware that:

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<sup>1</sup> The criteria will obviously vary from project to project and Club to Club. The key issue here is that Club Management should be able to justify and defend its capital works expenditure decisions by reference to a well thought-out and thoroughly documented process that reflects the Club's place in the community.



- a) a project manager who is an employee will need to be qualified<sup>2</sup> and be allocated sufficient resources and time;
- b) the Club will be deemed as being the Principal Contractor under the Occupational Health & Safety Act 2000 and Regulation 2001 and will require a safety system and management practices which comply with AS/NZS4804<sup>3</sup>;
- c) special insurances will be required;
- d) the Club will require expertise to properly manage the human resources needed on a construction project such as checking trade contractors' credentials (work cover authority, insurances, workers compensation declaration forms, etc); and
- e) the Club will require qualified resources to establish formal contracts with trade contractors and purchase agreements with suppliers which establish scope, risk allocation, price, terms of payment, quality, time, warranties, maintenance requirements and other obligations.

Q4 – Has the Club addressed the key financial issues?  
A thorough financial analysis needs to be prepared at this stage quantifying financial costs (both current and ongoing capital) and specifying sources of funding. Key factors to consider in determining whether the Club should undertake the project are:

- a) Interest Coverage Ratio on Loans – this is a calculation of the number of times interest owed is covered by EBITDA<sup>4</sup>;
- b) Maximum Debt Level – this is usually determined by a multiple of EBITDA. Financial institutions usually have a minimum benchmark. Note: It is important that the institution's lending criteria be properly understood;

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<sup>2</sup> eg hold a Builders Licence issued by the Department of Fair Trading and be properly trained in the management of Occupational Health and Safety in a major capital works environment.

<sup>3</sup> The majority of capital works projects undertaken by Clubs involve at least some refurbishment of their current premises. This carries with it a high Occupational Health and Safety risk and the need for complex staging to minimise the disruption to normal trading.

<sup>4</sup> Earnings before interest, taxes, depreciation & amortisation

- c) Cash flow - this needs to be monitored closely so that the repayment program can be met;
- d) Return on investment – the Club should determine in advance how it intends to measure the results projected to flow from the expenditure. Not all major capital works will be measurable in strict dollar terms. For example, the return on a Club's investment in a sports field will be difficult to quantify in financial terms. However, major capital works that are planned to deliver commercial returns should be readily quantifiable;
- e) Impact on current operations - quantify potential disruption to business (eg. gaming floor, car park etc).

### Information to Members

Members should be informed of the outcome of the detailed project appraisal.

## 9. Project Implementation

Once the major capital works project is fully defined, documented and approved, further implementation can commence.

For larger projects, Clubs should select an independent expert to act on their behalf to manage the delivery of major capital works projects. The independent expert should, on behalf of the Club, arrange the employment of necessary consultants to define, design, document and gain approvals for the project. They should obtain at least three independent quotations for all sub/trade contractor and supplier works.

In some circumstances the Club and independent expert may form the opinion that the lowest tendered price does not conform to the needs of the Club. An



example may be the capacity of the service provider to perform the necessary works within time, cost and ability, including Occupational Health & Safety. In that circumstance, the next lowest price should be used, providing it conforms to the needs of the Club.

### Selection of Third Parties

In most cases Clubs will need the expertise of a number of outside specialist organisations to enable major capital works projects to be defined, documented, cost-planned and approved. Third parties include consultants, architects, engineers, suppliers, builders, managing contractors, project managers and trade/sub contractors, among others.

A combination of price criteria and non price criteria may be used to select these third parties. The selection criteria should be documented then conscientiously applied.

For example, selection criteria for a construction project should establish whether the company is a qualified construction company that can act as the Principal Contractor. Club directors need to ensure the company:

- a) has necessary insurances (professional indemnity, contract works, public liability and workers compensation);
- b) holds a builders licence;
- c) has an occupational health and safety system in place which complies with AS4804;
- d) has a track record, references, experience, etc; and
- e) is to be formally evaluated against the non price criteria listed below.

Clubs may make a selection by comparing capable organisations using non price criteria, provided that fees and charges are reviewed by a qualified independent quantity surveyor<sup>5</sup> (with relevant experience) engaged by the Club.

Non price selection criteria typically include:

- a) Intellectual property from past work;
- b) Industry knowledge and specialty expertise;
- c) Adequacy of insurances;
- d) References/reputation;
- e) Financial viability;
- f) Resources available/capacity to perform;
- g) Occupational Health & Safety (eg. to AS/NZS4804);
- h) Unique product or services;
- i) Industrial and workplace relations record;
- j) Qualifications (eg. builders licence);
- k) Contractual adequacy;
- l) Guarantees/risk taking offered;
- m) No conflicts of interest with Board and Management; and
- n) Transparency of costs.

Subject to the above points, Clubs can negotiate with one company to achieve a desired outcome, provided that fees and charges by the company are reviewed by a qualified independent quantity surveyor (with relevant experience) engaged by the Club.

Where a club settles on a bid that was not the lowest price, reasons for the decision should be documented.

Clubs should refer to the "ClubsNSW Guidelines for Procurement of Goods and Services" for detailed guidance in this area.

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<sup>5</sup> A quantity surveyor is usually required by banks if debt funding is involved.



### Capital Works Decision Process

