

Cabinet

6 December 2011

Report of the Cabinet Member for Leisure, Culture and Social Inclusion

Gym Expansion at Energise

Summary

1. This paper presents a business case for the Council to borrow £540k on behalf of York High School to facilitate an extension of the successful Energise gym facility which will improve customer service and reduce the need for Council subsidy.

Background

2. A partnership has existed since 2005 between York High School (the School) and the Council to provide community access to the fantastic range of sporting facilities on site which are made up of the Council's swimming pool together with sports facilities made available by the school.
3. Responsibility for managing the sports facilities rests with the School under the terms of a service level agreement (SLA). They exercise this through the Sports Centre Management Committee (SCMC) which has representatives from the Council, School and school governors. The School employs an operator to run the community facilities on a day to day basis. To date, this has been the Council's Sport & Active Leisure team. The Council pay a grant to the school which is agreed annually.
4. The partnership has been highly successful and has delivered investment into the facilities, a range of new services, and a strong financial performance. User figures reached a high of 391,000 in 2010/11. Energise has achieved a number of accolades including 'Inclusive Fitness Mark' and a 'commended' under the 'Quest' scheme. All of this has been achieved in a challenging period of transition with the new school opening and the public swimming pool being built.

5. The Council's vision has always been to aim for long term sustainability and to continually reinvest in the facility whilst removing the need for a council subsidy. The current financial pressure on the Council has sharpened the focus on presenting an enterprising proposal to achieve this.

The Proposal

6. The proposal to invest £540k to extend the current gym facility at Energise by 219 sq/m can be seen in detail in Annex A, presented as a business case report which is supported by:
 - The School's SCMC
 - York High School Full Governors Committee who approved the plan on 29 September 2011
 - The Communities and Culture finance team

Consultation

7. Energise has embedded a customer engagement process that enables customer and staff comments and planned research to feed into the overall business strategy on a daily basis.
8. Listening to the current gym membership base of 2,500 regular users and capturing comments from members leaving, Energise management team made the following conclusions:
 - The current gym facility was at capacity and members were starting to leave due to overcrowding at peak times
 - The current membership offer is attractive, value for money and competitive.
9. We also commissioned a latent demand survey which concluded that there is a strong unmet demand around Energise. It estimates a potential to attract 975 members if the gym is expanded.
10. Consultation with an independent sales company backed up the latent demand findings and suggested that even more members could be attracted.

The Business Plan

11. The proposal fits within the overall business plan that has been in place since 2005, focussing on reducing the Council's grant by maximising income streams. The business plan is robust and has performed favourably against target year on year. This is

demonstrated by a saving of over £200k in the last 3 years, as the operator performance grows.

12. The addition of the new swimming pool in December 2009 has positioned Energise as the main leisure facility in the West of York, with no direct competition within a clear two mile radius. Energise is now well established with a strong market presence and achieving a stable turnover of £1.38m.

Project costs

13. A summary of the project costs and funding are shown below:

COSTS	£,000	FUNDING	£,000
Build costs & Fees	511	CYC/Energise allocation	140
Equipment	128	Prudential borrowing	540
Feasibility	4		
Contingency	37		
TOTAL COSTS	680	TOTAL FUNDING	680

14. The table below shows the trading position over the next 5 years. It is important to recognise that the income and expenditure shown are in addition to the existing Energise income and expenditure costs for the gym.

TRADING POSITION	Yr 1 £,000	Yr 2 £,000	Yr 3 £,000	Yr 4 £,000	Yr 5 £,000
Income from new gym membership sales	148	308	308	308	308
Expenditure					
Prudential borrowing repayments	153	153	153	153	0
Additional revenue costs e.g. Marketing and retention	15	15	15	15	15
Total Expenditure	168	168	168	168	15
Net Profit	-20	140	140	140	293

15. The table shows an initial trading loss of £20k in year 1 which can be managed using reserves by the SCMC. This is followed by a net profit in year 2, 3 and 4 of £140k. This net profit could mean an earlier reduction in the Council grant.

The Options

16. The options are:
 - To approve the prudential borrowing so that the School may expand the gym facility at Energise
 - Not to approve the prudential borrowing.

Analysis

17. The implications of not going ahead with the gym expansion would mean capping the membership numbers, as the current level of membership long term is unrealistic in the current size of facility.
18. Failure to build an extension would not only mean capping service provision but missing out on a profitable business opportunity for the Council. It would be possible to look at smaller income generation projects that do not require major capital investment; however, these are limited due to the sports facilities being so well used and almost at capacity. Profits would be smaller, so the ability to reduce the Council's subsidy in the next 5 years will be restricted.

Implications

Finance

19. The net cost to the Council of this project is nil in revenue terms, as York High School will make the revenue borrowing repayments. However, ultimately the Council underwrites the partnership financially, as agreed in the terms of the Service Level Agreement (SLA).
20. The mechanics of the SLA set out clear guidelines for the operator to deal with any income short falls in the first instance by the adjustment of programming, pricing and staffing. Any ongoing problem must be reported to the SCMC and then to the Full Governors to consider corrective action. The Council's School Funding and Monitoring Officer in the ACE finance team is also to be contacted at the earliest opportunity so that any necessary action can be agreed.

21. In the event of additional profits being made, the SLA sets out a profit share distribution back to the Council up to the level of the revenue grant paid in that financial year.

Legal

22. No legal implications.

Human Resource

23. There are no negative implications for staff, but there is potential to increase staffing levels to meet demand as directed by the operator.

Equalities

24. Energise has been designed from the outset to be a physically accessible building. The SLA requires the operator to provide a wide range of activities to meet the needs of York residents. The service has been externally audited by the Inclusive Fitness Initiative (IFI), who awarded Energise the IFI Mark in recognition of being an inclusive leisure facility.

Risk Management

25. Risks are identified in the business case recognising that payback hinges on successful sales of gym membership.
26. The SMCM will monitor the financial performance of the facilities as it does now. Should it fall short of its budget targets in the first instance the School would deal with the consequences through management action e.g. reducing or adjusting programme; however, the school could not use its delegated budgets to make up any shortfall. Since the School provides the service on behalf of the Council the Council would work with the School to manage the consequences of any deficit, agreeing strategies, and reporting to members. Ultimately the Council would be responsible for the financial consequences should the project fail.

Corporate Priorities

27. This report describes the service's response to the key outcomes described in the Council Plan 2011-2015 with specific emphasis on the section 'Build Strong Communities' and 'Jobs and Growth'.

Recommendations

28. Cabinet is asked to approve the proposal to undertake prudential borrowing on behalf of the School and to recommend to Council the

addition to the Capital Programme in 2011/12 of £540k in order to expand the gym at Energise.

Reason: To improve the efficiency and effectiveness of the Council's leisure offer.

Contact Details

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Wards Affected: List wards or tick box to indicate all			All <input checked="" type="checkbox"/>

For further information please contact the author of the report

Annexes:

Annex – The Business Case (exempt)

Background Papers:

None