

OPTIONS FOR THE PROVISION OF PUBLIC SWIMMING (AND FITNESS) FACILITIES IN SHREWSBURY

REVISIONS TO THE MAIN THE REPORT, 1 SEPTEMBER 2015

Leisure experts, Strategic Leisure Ltd www.strategicleisure.co.uk were appointed to undertake a thorough and independent analysis of the shortlist of options for swimming provision in Shrewsbury. This detailed work informed a four month public consultation starting on the 28th May 2015.

An executive summary of the report was published alongside the consultation. The main report was made available on request.

In response to feedback we have received to date as part of the consultation, the availability of up to date revenue information for 2014/15, and feedback on the original figures during the consultation, the opportunity has been taken to update revenue modelling within the report.

The updates relate solely to the following sections within Section 5 of the main report, pages 133-144:

- Revenue Impact of Development Options (section 5.93)
- Business Plan Revenue Modelling (section 5.97)
- Business Plan Modelling Assumptions (section 5.102)
- Business Plan Assumptions Specific to New Build at Shrewsbury Sports Village (section 5.104)
- Business Plan Revenue Modelling conclusions (section 5.105)
- Appendix 4 Revenue estimates

The changes provide:

- Revised and updated operational revenue estimates for the various options proposed
- Revised and updated comparison between the revenue estimates for each of the new build options and the existing Quarry pool operation

Specifically the changes reflect:

- The use of actual operational expenditure and income figures for the Quarry Swimming Pool for 2014/15 (rather than the previously used 2013/14 figures); these figures do not include the management fee / subsidy paid by Shropshire Council to the operator.
- The correction within the original figures of the operating budget for the existing Quarry Swimming Pool operation, brought to the attention of the Council during the public consultation.
- The removal of some costs, specifically:
 - Fit out costs i.e. the cost of providing the fixed equipment in order that the leisure facility can operate e.g. catering equipment, gym equipment

- Life cycle costs i.e. the overall costs of replacing the various plant and major equipment e.g. boilers, air handling unit, filtration plant in the leisure facility over the period of the operating contract
- Sinking fund i.e. a fund that should be built up to replace the facility at the end of its life from the revised modelling. However, the cost (to the contractor) of building repair and maintenance (the ongoing day to day repairs and maintenance needed to equipment, floor surfaces, lockers etc.) within a full repairing lease are included.

These revisions do not alter which option makes the greatest or the least potential saving when compared to the existing Quarry Swimming Pool operation. However, the actual figures have changed in all cases, as the existing comparative operational deficit figure of the Quarry facility has changed. The updated figures show an improved revenue impact in all cases.

For the avoidance of doubt the original and revised figures are shown below. The figures are based on:

- The enhanced minimum facility mix – i.e. 8 lane x 25m pool; 10m x 20m learner pool; water confidence area; 50 station fitness suite; and 250 spectator seating
- An operational deficit for the Quarry in 2014/15 of £195,811 excluding the Shropshire Council subsidy.

Option	UPDATED Forecast Operational Revenue: (Surplus) / Deficit	PREVIOUSLY REPORTED Forecast Operational Revenue: (Surplus) / Deficit	UPDATED Revenue impact (annual gross average over 10 year period)	PREVIOUSLY REPORTED Revenue impact (annual gross average over 10 year period)
Option 1A Refurbishment of the Quarry Pool	£195,811	£89,374	Costs as per current operating deficit	Costs as per current subsidy
Option 1B Renovation of the Quarry Pool	£195,811	£89,374	Costs as per current operating deficit	Costs as per current subsidy
Option 2 New build on the Quarry Site	£29,996	£79,996	£165,815 saving on existing costs per annum	£9,378 saving on existing costs per annum
Option 3C New build on land at Clayton Way	£27,539	£77,539	£168,272 saving on existing costs per annum	£11,835 saving on existing costs per annum
Option 3D New build on land at Ellesmere Road	£27,539	£77,539	£168,272 saving on existing costs per annum	£11,835 saving on existing costs per annum
Option 3E New build on land at	(£250,295)	(£194,994)	£446,106 saving on	£289,669 saving on

Shrewsbury Sports Village			existing costs per annum	existing costs per annum (this figure reflects total income across all facilities, and the operating costs, including staffing across all the facilities on site, and the operational subsidy)
Option 3F New build on land at the Shrewsbury College	Assumption would be that this would be a figure between a full new build and the Sports Village site option	Assumption would be that this would be a figure between a full new build and the Sports Village site option	Saving of between £168,272 and £446,106	Saving of between £9,378 and £289,669 per annum (not estimated. Assumption would be that this would be a figure between a full new build and the sports village site option)

REVENUE IMPACT OF DEVELOPMENT OPTIONS

- 5.93 In order to assess the revenue impact of the identified development options, we have developed indicative income and expenditure estimates.
- 5.94 Given that Option 1A Refurbishment of the Quarry Pool and Option 1B Renovation of the Quarry Pool do not change the existing facility mix at all, nor reduce the resources required to operate the swimming pool and fitness facilities, we have used the actual 2014/15 operational figures provided to us, exclusive of the subsidy paid by Shropshire Council, in order to compare like with like.
- 5.95 It is assumed that the existing operational costs and subsidies would still apply moving forwards, as the investment envisaged under both options does not improve the operational efficiency of the building. The fact that both Option 1B, and potentially to some extent Option 1A (parts of the building may be closed to facilitate works for at least some of the time) will impact on the continuity of service will actually mean some loss of income.
- 5.96 Revenue modelling has therefore been undertaken for new build facility mix Options 2 and 3A-E.

BUSINESS PLAN REVENUE MODELLING

- 5.97 A business plan model has been produced for each of the 3 facility mix options for each of the identified sites as follows i.e. for each development option there are three business plan models, Options X Enhanced Minimum facility mix, Option Y Enhanced

Minimum Facility Mix but with a 100 station fitness suite, and Option Z Enhanced Minimum Facility Mix with a 10 lane x 25m pool and 100 station fitness suite:

- **Option 2 New build on the Quarry Pool site**
- **Options 3A – 3D New Build on other potential development sites**
- **Option 3E New build on land at the Shrewsbury Sports Village**
N.B Option 3F would fall somewhere between Options 3A-D and Option 3E; see paragraphs 5.103-5.104 below.

5.98 The models are based on the existing management arrangement, i.e. a Commercial Operator approach with current operator Shropshire Community Leisure Trust (managing agents Serco). The estimated revenue position is provided below and the detailed revenue business plans for each option are provided in Appendix 4.

5.99 Options X, Y and Z detailed below represent the revenue position for a ten year contract. Options X 3E, Y 3E and Z 3E assume that there will be new swimming provision to replace the existing Quarry Pool built at the Shrewsbury Sports Village. Options X 3A-D, Y 3A-D and Z 3A-D assume a new facility will be built on an alternative site. Option X 2 assumes a new facility is built on the Quarry site.

5.100 The facility mix options for Options 2 and 3 are as described in Table 5.18 above.

5.101 Predicting the long-term implications of any leisure provision is not an exact science and a number of assumptions have had to be made. The main assumptions for the site options and their relevant business plans by facility mix are set out below in paragraphs 5.100 – 5.101. These reflect our expert experience in developing revenue estimates over nearly 30 years, and our knowledge of the UK leisure market, plus operators' approaches.

BUSINESS PLAN MODELLING ASSUMPTIONS

5.102 The assumptions detailed below and the attached detailed revenue estimates (Appendix 4), provide in Strategic Leisure's experience, an achievable and competitive revenue position for the proposed new replacement of the Quarry Pool, and apply to all business plans. The basis for the revenue modeling in terms of the size of facilities is summarised below in Table 5.20:

Table 5.20: Summary of basis for Revenue Modeling

DEVELOPMENT OPTION	SITE	GROSS INTERNAL FLOOR AREA (GIFA)		
		REVENUE MODEL OPTION X	REVENUE MODEL OPTION Y	REVENUE MODEL Z
2	New Build Quarry Site	3,550m ²	3,903m ²	4,100m ²
3A-3D	New Build Alternative site	3,474m ²	3,827m ²	4,024m ²
3E	New Build Shrewsbury Sports Village	2,885m ²	3,179m ²	3,376m ²

5.103 The business plans assume the new facility would be funded and built by SC, involving at least some Prudential Borrowing. No costs for the capital build are included in the

model. Fit out would normally be the responsibility of an operator, although the Council could improve the level of contract payment if it includes some fit out cost in the capital build cost, and required the operator only to fund health and fitness and lifecycle costs.

- The business plans assume that a new facility would be managed by an external operator, given that the Council's existing facilities are already externalised, and are currently managed by Serco.
- The new build business plans also assume the operator will take on a full repairing lease; this would also provide savings to the Council which is currently responsible for the landlord maintenance works to facilities. It is prudent to highlight that the process of predicting the possible responses to this suggested approach from the private and trust sector is difficult at best, primarily due to the different approaches each organisation has to bidding. However, it is fair to say that increasingly local authorities are expecting an operator to take on this level of risk, particularly for a new build facility.
- The current market is witnessing changes in bidding strategies with some operators willing to take more risk than others and some being more ambitious than others in terms of income generation etc. In completing these business cases Strategic Leisure has used their experience of evaluating hundreds of tender bids and assisting many other organisations in developing their business plans etc. Whilst no guarantees can be given the business case reflects a considered and systematic analysis of the facility mixes and the various issues that impact on them.
- The financial models identify the indicative position for the revenue cost of the replacement facility based upon the identified facility mix.
- The business plans are based on a ten-year operator contract.
- Whilst a sinking fund for the replacement of the new facility is not included in the revenue model at this point, it is recognised that there will need to be provision made for this once the location and final facility mix for a new facility are determined. The costs included for the sinking fund should be based on Sport England Guidance. The sinking fund would be the responsibility of SC. A sinking fund is a fund which accumulates year on year (assuming it is added to year on year), to fund the facility replacement in the future.
- The current SC subsidy is not factored into any Business Plan Models and assumptions in the tables above. The current Quarry operational deficit is used as a comparator figure to illustrate the difference between the cost of the current Quarry operation and the projected operational cost for each new build option. This means a like for like comparison can be made, as far as is practically possible, given the existing facility and the new build options are different in terms of facility mix and scale, and therefore income generating potential, and operational costs.
- The base model is based upon a private commercial operator with a hybrid Non-Profit Distributing Organisation (NPDO) or a leisure trust model that is able to attract National Non-Domestic Relief (NNDR) at 80% mandatory rate plus VAT benefits. (The current SC operator, Serco, attracts 100% relief). However given the changes in 2013 to the way NNDR is collected, any changes to the Council's policy will need to be reflected in the financial model. Most if not all private operators now have models that attract VAT benefits.

- The rates payable before any relief is estimated at £100,000 per annum. If more accurate NNDR costs are made available the business plan can be updated. However the final Rateable Value for the new facility will not be known until it has been assessed following its completion. 100% relief has been assumed, as this is the current position of the Quarry Pool operation.
- SLL has developed the new build business plans from scratch; these have been informed by comparative data from a number of recent similar facilities and tender bid submissions for benchmarking purposes.
- The business plans assume an indicative new staff structure and the staffing structures shown in the business plans are for the staff required to operate each proposed new build facility and no additional costs have been included in relation to existing staff at the Quarry Pool.
- No allowances have been made in relation to TUPE costs, as it is anticipated that existing Quarry staff would still be employed by the current operator within the current management contract at the time of any new build opening.
- The Health and Fitness projections are based on 50 (Business Plan Option X) and 100 stations (Business Plan Option Y) and are based on starting from scratch i.e. no existing members at opening with the exception of Shrewsbury Sports Village where there is an existing fitness facility
- The Business plan assumes a five year maturity in terms of income.
- Electricity and Gas costs are based on £30/m² in relation to facility development option GIFA's
- There may be a need to allow for a contractual profit-share (currently excluded from all new build options), depending on the contract arrangements negotiated for the new facility; this could potentially offset the SC costs of borrowing to develop the new facility. Equally, any profit share, which goes to SC could also be used to offset the sinking fund.
- Contractor overheads are calculated on the basis of 10% of total income (overheads cover all expenditure over and above the itemised ones in the revenue models, and are comparable in terms of actual amount with the 2014/15 Quarry overhead figures).
- Final business plans will also need to reflect on-going costs (if any) to SC.
- The Utilities costs are based on benchmarking similar facilities, when more detailed consumption forecasts are available from the design team then this plan can be updated.
- Certain cost headings, e.g. repairs and maintenance, reflect that the initial years will realise a lower cost due to the facility requiring less initial maintenance; however, the programme for later years incorporates increased maintenance for items such as redecoration etc.
- The cost of a sinking fund and fit out, including initial fitness equipment, are treated as being below the line so that reviews on the most appropriate funding solutions

can be established. It is expected that the full repairing lease will become a Contractor cost, and that the initial fit-out and fitness equipment leasing costs will also be funded by the Contractor. The assumed cost of leasing of the fitness equipment has been reduced, as the cost of borrowing remains low, so the interest rate chargeable has been slightly reduced based on recent evidence in the leisure procurement market.

- Inflation at 2.5% has been applied to the business plans for the first 5 years.
- No cost for grounds maintenance has been included as the design for the facility has yet to be established.
- The options only include provision for catering through vending. It is noted that the current food and beverage concession of the Quarry realises income of approximately £76k per annum. To compare like for like i.e. revenue modeling with actual position at the Quarry, this sum would have to be deducted from the current operating deficit of approximately £196K for 2014/15. It should be noted that none of the new build options include a café at this stage; including a café would actually further improve the levels of revenue generation, and therefore the overall operational surplus would improve.
- The slight difference shown in Y & Z options and the different income and expenditure figures are due to the slight increase in income for the additional 2 swimming lanes and related increase in staff to service this.

BUSINESS PLAN ASSUMPTIONS SPECIFIC TO NEW BUILD AT SHREWSBURY SPORTS VILLAGE

5.104 The following business plan assumptions are specific to a new build facility on the Shrewsbury Sports Village site only:

- Staffing assumptions are in addition to existing staff at Shrewsbury Sports Village (as outlined in assumptions above) and it has been assumed that existing Sports Village staff will undertake appropriate wetside qualifications such as NPLQ, Swim Teaching qualifications etc.; where possible to ensure maximum targeting of operational resource is achieved
- A base level of fitness members has been assumed and estimated as a starting membership for purposes of income estimates; this is because there is already a fitness suite, and existing members which would be retained in the event of a new build at Shrewsbury Sports Village.

BUSINESS PLAN REVENUE MODELLING CONCLUSIONS

5.105 The summary of the revenue impact of Option 2, and Options 3A-3E are detailed below in Table 5.21. The cost of capital borrowing for the build is not factored into the models at this stage, because the final facility mix is not confirmed, nor is the preferred site. These costs will need to be factored into the overall business case in due course, as part of a more detailed feasibility study once the facility mix and site option has been confirmed.

5.106 For the Option 3F site, Shrewsbury College, there is an existing range of facilities on site and an operator already in place; to realise revenue reductions any new facility on this site would need to be operated by the same operator as the other SC facilities. There would be unlikely to be the same level of revenue reduction under this option as could be achieved under Option 3E; this is because if a new swimming and fitness facility were to be built on this site, Shropshire Council would have to operate both this new facility and the existing Shropshire Sports Village facility. However, if a new facility development were to be on the Shrewsbury Sports Village site the number of separate facilities would reduce (Shrewsbury Sports Village is the only site option to deliver this), because the new facility replacing the Quarry would be on an existing site, that is owned by Shropshire Council, and operated on their behalf by Serco. The Shrewsbury College site is owned by the College and operated on their behalf by an external operator, without a current financial contribution from SC.

Table 5.21: Comparison between the Revenue Impact of Option 2 New Build, and Options 3A-3E New Build

	QUARRY POOL CURRENT OPERATIONAL COSTS 2014/15	OPTION 3E SHREWSBURY SPORTS VILLAGE			OPTION 2 NEW BUILD ON THE QUARRY POOL SITE			OPTIONS 3A-3D NEW BUILD		
		10 YEAR AVERAGE OPTION X	10 YEAR AVERAGE OPTION Y	10 YEAR AVERAGE OPTION Z	10 YEAR AVERAGE OPTION X	10 YEAR AVERAGE OPTION Y	10 YEAR AVERAGE OPTION Z	10 YEAR AVERAGE OPTION X	10 YEAR AVERAGE OPTION Y	10 YEAR AVERAGE OPTION Z
TOTAL INCOME	(£978,396)	(£1,219,468)	(£1,445,458)	(£1,459,956)	(£1,064,677)	(£1,208,670)	(£1,223,168)	(£1,064,677)	£1,208,670	£1,223,168
TOTAL EXPENDITURE	£1,174,207	£902,350	£977,124	£989,299	£1,027,850	£1,092,354	£1,104,529	£1,025,393	£1,089,897	£1,102,072
OPERATIONAL (SURPLUS)/ DEFICIT BEFORE FULL REPAIR AND LEASE COSTS	£195,811 operational deficit, exclusive of SC subsidy	(£317,118)	(£468,334)	(£470,657)	(£36,827)	(£116,316)	(£118,639)	(£39,284)	(£118,773)	(£121,096)
FULL REPAIR AND LEASE COSTS	N/A	£66,823	£95,645	£95,645	£66,823	£95,645	£95,645	£66,823	£95,645	£95,645
GROSS (SURPLUS) /DEFICIT INCLUDING FULL REPAIR AND LEASE COSTS	£195,811	(£250,295)	(£372,689)	(£375,012)	£29,996	(20,671)	(£22,994)	£27,539	(£23,128)	(£25,451)

5.107 The table above illustrates the revenue impact of the new build options modelled. It is clear from this that an Enhanced Minimum Facility Mix on the Shrewsbury Sports Village site presents the best option when compared against the other new build revised minimum facility mix options (comparison of Options X). Whilst Option Z 3E (10 lane x 25m pool plus 100 station fitness suite) on the Shrewsbury Sports Village site delivers the optimum revenue position, in reality there is little difference between that and Option Y 3E, the revised minimum facility mix plus 100 fitness stations. All options on the Shrewsbury Sports Village site realise a surplus. A new build facility on the Shrewsbury Sports Village site will cost less to build and less to operate, given that there is an existing operational facility already in situ, and a new build would benefit from economies of scale with this. Equally, all development options on the Shrewsbury Sports Village site have a significantly higher participation level than the other development options, which contributes to the better revenue position. The higher participation levels are a consequence of developing new swimming pools on a site where there are already sports facilities, because there would be 'cross-over' in usage on site (i.e. existing facility users would be likely to also use the new swimming pools, and swimmers are also likely to use other on-site facilities), as well as new participants.

5.108 It should be noted that there is a distinct difference in how the modelling for the Shrewsbury Sports Village site option has been carried out. This modeling, although based on the same principles of use as for the other models is subtly different in that it is modelled on the basis of the current operation and level of usage currently taking place at the existing facility. Therefore when calculating income and throughput figures for Health & Fitness, a base level of use has been applied, being the existing gym usage currently taking place. This has the effect, unlike the other models, which start from a zero membership and throughput base being brand new facilities, of taking an existing operation and adding additional income and usage for the new and improved Health and Fitness offer. The Shrewsbury Sports Village site would offer the opportunity to develop the new swimming pool and enhanced Health and Fitness facilities whilst retaining and maintaining existing usage levels, unlike the Quarry Pool site option, which would require the total closure of the existing site whilst new build takes place (during this closure period, existing Health and Fitness members are likely to move elsewhere, and may not return). In effect the Shrewsbury Sports Village site is unique in relation to the business modelling allowing for continuation of the existing Health & Fitness operation for new business to be developed on the back of existing membership already in place.

5.109 In terms of revenue generation, the direct comparison between the Quarry new build i.e. Option 2, and the new build on the Shropshire Sports Village site (both enhanced Minimum Facility mix) is:

Table 5.22 Direct Comparison of Swimming and Fitness Income New Build Quarry and Shropshire Sports Village Sites. Note that the figures for health and fitness only account for causal and membership use and exclude other use such as GP referrals.

OPTION 2 NEW BUILD ON QUARRY SITE	THROUGHPUT	INCOME	INCOME PER FITNESS STATION (INDUSTRY BENCHMARK £5K - £8.5K PER STATION)
SWIMMING	241,908	£581,820 (year 1)	
FITNESS	10,500 casual users per annum; 1118 memberships	£269,611 (year 3)	£5,392

TOTAL INCOME (SWIMMING AND FITNESS ONLY)		£851,431	
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OPTION 3E NEW BUILD ON SHROPSHIRE SPORTS VILLAGE SITE	THROUGHPUT	INCOME	INCOME PER FITNESS STATION (INDUSTRY BENCHMARK £5K - £8.5K PER STATION)
SWIMMING	241,908	£581,820 (year 1)	
FITNESS	10,500 casual per annum; 2108 memberships	£413,209 (year 3)	£8,264
TOTAL INCOME (SWIMMING AND FITNESS ONLY)		£999,029	

N.B It is important to note that it is not possible to compare the operational costs directly on these two options because they are different; Shropshire Sports Village already has a staffing and management structure, which would need to be increased slightly (approx. 8 additional staff (full time equivalents FTEs) to operate new pools on the site. The Quarry would operate on a stand-alone basis, with its own operational management structure. The major difference is that the costs of the stand-alone structure would be set against only two main income generating areas i.e. the pools and the fitness suite (plus catering), whereas the operating costs at any site e.g. Options 3C and 3D would be set against these, plus the income derived from all the other income generating facilities on site.

- 5.110 This is shown in real terms within the Shrewsbury Sports Village business plans as having the distorting effect of much higher throughput levels shown in relation to the other business plans. When compared to the other business plans, throughput figures appear to be much higher, but actually this is because the existing level of memberships and throughput are used and incorporated as the starting point for the business planning at Shrewsbury Sports Village, unlike the other plans which in relation to Health and Fitness membership start from a zero base.
- 5.111 It would also be expected when considering the business plans to see a comparable increase in income in relation to increasing the size of main swimming pool provision from 8 to 10 lanes. However the reality is that this has a minimal net revenue effect with the increased throughput and income from the increased water space being negated by the increase in utility costs (such as electricity, gas etc.) and staffing costs.
- 5.112 Overall the increased throughput figures for the Shrewsbury Sports Village (which in some cases are estimated at increasing by nearly 100,000 visits) do not necessarily get reflected in an improved revenue position for the reasons outlined above and which in reality only see a small net improved revenue position (of less than £10K), but the benefits are actually more tangible in terms of the increased throughput levels and number of people taking part in physical activity as a result of an enhanced facility offer (10 lane as opposed to 8 lane main pool; 100 station health & fitness offer instead of 50 stations etc.).
- 5.113 All other new build options make a loss (based on the enhanced minimum facility mix and the gross budget exclusive of repairs and maintenance); essentially this is because each would be a stand-alone facility, bearing the cost of all operational elements, without the benefits of economies of scale, and an existing operational management structure.