

CONFIDENTIAL REPORT

REPORT RELATING TO: A leader in the delivery of the Community Vision

Originating Officer: Heather Michell, Land Asset Officer
Corporate Manager: Peter Patterson
Director: Heather Montgomerie
Subject: Marion Leisure and Fitness Centre
Lease to CASA Leisure Pty Ltd
Reference No: GC091214F01
File No: 16.51.1.36

If the Council so determines, this matter may be considered in confidence under Section 90(3)(d) of the *Local Government Act 1999* on the grounds that the report contains information relating to commercial information of a commercial nature (not being a trade secret) the disclosure of which (i) could reasonably be expected to prejudice the commercial position of a person who supplied the information, or to confer a commercial advantage on a third party; and (ii) would, on balance, be contrary to the public interest.



Mark Searle
Chief Executive Officer

RECOMMENDATION:

1. That pursuant to Section 90 (2) and (3)(d) of the *Local Government Act 1999*, the Council orders that all persons present, with the exception of the following persons: Mark Searle, Kathy Jarrett, Vincent Mifsud, Heather Montgomerie, Kate McKenzie, Peter Patterson, Mark Gibson and Heather Michell be excluded from the meeting as the Council receives and considers information relating to the Marion Leisure Fitness Centre Lease to CASA Leisure Pty Ltd, upon the basis that the Council is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to commercial information of a commercial nature (not being a trade secret) the disclosure of which (i) could reasonably be expected to prejudice the commercial position of a person who supplied the information, or to confer a commercial advantage on a third party; and (ii) would, on balance, be contrary to the public interest.

REPORT OBJECTIVE:

The purpose of this report is to present an approach for Council consideration regarding the current and future use of the Marion Leisure & Fitness site.

EXECUTIVE SUMMARY:

The Marion Leisure and Fitness Centre ("Centre") at 228 Oaklands Road, Morphetville is leased to CASA Leisure Pty Ltd ("CASA") for five years from 1 October 2004 with one right of renewal for five years. On 1 October 2009 the Lease was renewed for five years expiring on 30 September 2014, with a further right of renewal of five years being granted on the same terms and conditions as the existing Lease, expiring on 30 September 2019.

CASA have notified Council of their intention to renew the existing Lease from 1 October 2014 to 30 September 2019 on varied terms and conditions. This intention has given rise to a need for Council to review the facility in totality and consider current and future options.

The approach includes a short term measure of continuing the lease as a monthly tenancy for a maximum period of six months while undertaking a market review of the facility which identifies a range of potential users and management models for the facility that provide long term sustainability community value.

RECOMMENDATIONS: (4)**DUE
DATES****That Council:**

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|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| 1. | Maintain the Lease in a holding over monthly tenancy for up to six months | December 2014 |
| 2. | Conducts a market review of the facility which includes identifying potential users and management options and models for the medium and long term | April 2015 |
| 3. | Receive a report detailing the findings of this review which will include future options for the facility and management models | April 2015 |
| 4. | In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Council orders that this report, Marion Leisure and Fitness Centre, Lease to CASA Licence Pty Ltd and the Minutes arising from this report having been considered in confidence under Section 90(2) and (3)(d) of the Act be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the General Council Meeting in December 2015. | December 2015 |

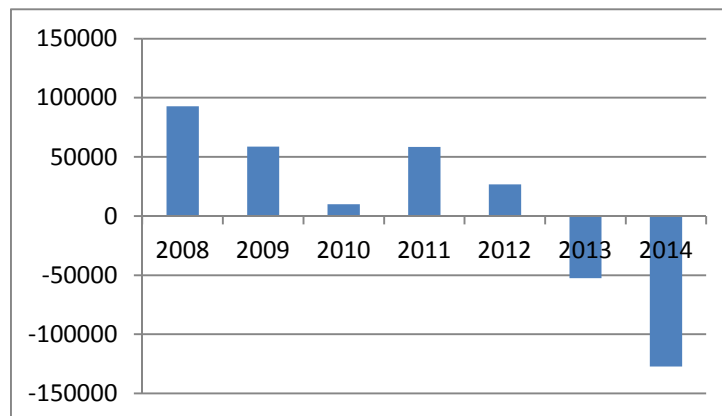
BACKGROUND:

The Marion Leisure and Fitness Centre ("Centre") at 228 Oaklands Road, Morphettville is leased under a commercial lease arrangement to CASA Leisure Pty Ltd ("CASA") who provide a range of services and activities to the community. The lease has reached the end of its term and CASA have requested to exercise their right of renewal with varied terms, therefore a short term decision is required in respect of the lease.

The Centre provides health and fitness opportunities for the community through the provision of social sports programs and craft markets. Further CASA sub-leases areas of the facility to SA Amateur Gymnastics Assoc. Inc. and Koorana Gymnastics Club Inc.

The Centre has experienced growing competition from an increase in the number of fitness centres now operating in the immediate area. Due to the competitive marketplace, there has been a recent decline in memberships which has resulted in substantial financial losses for the 2012/13 and 2013/14 financial years.

CASA has sustained losses for the last two financial years which is preceded by a decline in profits over the previous years as shown below:



CASA is currently in arrears of rent and outgoings, totaling some \$42,500 as at 30 November 2014. Council is not obligated to renew the lease while CASA is in default for non-payment. CASA have not been able to provide any details of how they propose to repay the arrears.

It is standard practice that Council would require all arrears to be paid prior to the renewal of lease being granted.

CASA maintains an income stream of approximately \$65,000 per annum from sub-leases to other occupants of the Centre (SA Amateur Gymnastics Assoc. Inc. and Koorana Gymnastics Club Inc. (other Occupants)).

Clause 4.1.2 of the lease provides that Council has the right to terminate the lease if the rent or any part of it is unpaid for a period of seven days after the day on which it ought to have been paid. A termination of lease for breach of its terms and conditions is subject to other statutory provisions.

The rent is currently only paid to 31 March 2014. Other outgoings such as insurance and water rates also remain outstanding to Council.

CASA have notified Council of their intention to renew the existing Lease from 1 October 2014 to 30 September 2019 by varied terms and conditions, as follows:

1. Provide financial assistance to CASA by:
 - A reduction of base rent – the amount is to be negotiated
 - Remove the responsibility from CASA to pay Council Rates (\$17,400 in 2014/15)
 - Council to take responsibility for payment of building insurance premiums and all maintenance and repairs (Building Insurance was \$23,300 in 2014/15)
2. Council grant a further right of renewal for five years from 1 October 2019 to 30 September 2024 which would provide an opportunity for CASA to recoup the value of any future investments in the Centre.

If Council were to agree to the terms proposed by CASA, it would result in a revenue loss of up to \$70,000 per annum, which has not been budgeted for and the current arrears suggests that lease payments may also be at risk.

Lease Provisions

The Lease provides that:

- The Lease commenced on 1 October 2004 for a term of five years with one right of renewal for five years. On 1 October 2009 the Lease was renewed to 30 September 2014, with a further right of renewal of five years being granted on the same terms and conditions as the existing Lease
- SA Amateur Gymnastics Assoc. Inc. and Koorana Gymnastics Club Inc. (occupants) occupy the Centre under licence agreements and that CASA shall be entitled to receive all licence fees from the Users (a total of \$65,000 per annum)
- CASA pays a base annual rent of \$30,000. A turnover rent is paid in addition to the base rent depending upon the profits for each financial year. Council has not received any turnover rent since 2011
- CASA pays building insurance premiums and rates and taxes
- CASA is responsible for repairs and maintenance, not of a structural nature
- As the lease has expired and the terms of the renewal of lease have not been agreed, CASA is holding over as a monthly tenant.

Community Land

The land is classified as community land and included in the Community Land Management Plan 3 - Major Community Facilities.

Under the Local Government Act 1999, community consultation is required where the lease term exceeds five years, including all rights of renewal. Should Council grant a further five year right of renewal as requested by CASA, community consultation would be required.

Rental

The Lease provides that CASA pays a base annual rent of \$30,000 from the commencement date being 30 September 2009, and is fixed for the term of the Lease and all extensions of

the Lease. That is, there has not been an increase in the base rent since the commencement date and unless other terms are agreed by both parties, the base rent will not increase during the term of the Lease or any extension of the Lease.

Council's valuers, Maloney Field Services, have assessed the market rental & capital values in 2013 as follows:

	Capital Value	Annual Rental Value
Main Building	\$ 5,703,726	\$ 646,070
Koorana Gym	\$ 1,854,294	\$ 195,030
TOTAL	\$ 7,558,020	\$ 841,100

CASA's Strategies for 2014/15

In response to a request for CASA to provide details of how the varied terms proposed would support a turnaround in the business and a proposal for the payment of the outstanding arrears, CASA have provided a Business Strategy dated October 2014 (Appendix 1) and have advised that:

- *"Funds are not available to pay these amounts due to the level of subsidy that CASA Leisure has contributed to your Centre, and programs delivered to your community";*
and
- *"We do not believe that the health and fitness part of the business will turnaround, and the other community programs and services we offer, do not require a turnaround".*

The Business Strategy does not address how a reduction in operating costs addresses the previously sustained losses and how the arrears owing to Council for rent and outgoings are to be paid.

The Business Strategy provided by CASA lacks rigour around the business model provided and does not appear to satisfactorily provide financial projections for the business priorities for the current financial year.

DISCUSSION

Council's options for consideration for the future management of the site are:

1. The Lease holds over as a short term monthly tenancy.

Council undertakes a market review of the facility which identifies a range of appropriate users and management models for the facility that provide long term community value.

The scope of the review would include a review of management options includes identifying potential commercial or community users including consideration to the the existing occupants being SA Amateur Gymnastics Assoc. Inc. and Koorana

Gymnastics Club Inc.

During the period of review a strategy will be developed in the event that CASA vacates the premises which will ensure the continued use of the site for the existing occupants.

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2. Council terminates the lease for breach of non-payment of rent and outgoings, subject to legislative requirements.

Council undertakes a market review as described above and arrangements would be made to ensure the continued use of the existing occupants.

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3. Council offers to renew the Lease on the same terms and conditions. That is, CASA continues:

- To pay the base annual rent of \$30,000 and the turnover rent where applicable
- To pay Council rates and building insurance premiums
- To be responsible for building maintenance and repairs, not of a structural nature as set out in the existing Lease

CASA have indicated that they cannot continue to operate on this basis. CASA have advised that they do not have the funds to pay the arrears. Arrears will continue to accrue and the asset will continue to decline.

This option is not recommended

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4. Council accepts CASA's request to renew the Lease on the basis that, as from 1 October 2014:

- The base rent is reduced – the amount has not been specified
- CASA does not pay the Council rates
- Council pays the building insurance premiums
- Council takes responsibility for all building maintenance and repairs
- Council grants a further right of renewal for an additional five years to 30 September 2024

In addition to these requests, Council could seek to impose new terms on CASA. An example of this could be that Council has the right to re-direct the Users licence payments to Council.

Council could deny the request for the additional five year right of renewal on the basis that Council does not have confidence at this stage, the likely success of the Centre.

While CASA have requested a reduction of rent, outgoings and responsibility for maintenance and repairs, the other occupants' rent continues to be paid directly to CASA (in the sum of \$65,000) pursuant to the Lease.

CASA have advised:

- *"In simple terms we are requesting varied terms to enable the Centre to continue to operate in a sustainable way"*

and

- *"CASA does not have the funds and wherewithal to continue operating MLFC if it is not profitable. If we reach a loss situation we will be forced to cease all operations"*

In the event that Council does not agree to an extension of lease on the above terms and conditions or on revised terms and conditions that are not accepted by CASA and CASA terminates the Lease, Council could explore new models of management for the site through an Expression of Interest process.

It may be considered that Council is subsidising a commercial enterprise which is not fair and equitable for similar facilities in the area. This option will also result in increased costs to Council.

ANALYSIS:

Consultation

Community Consultation will be required if a further right of renewal is granted.

Risk Management

In the event that CASA terminate the Lease, Council may need to enter into lease agreements with the occupants who are in occupation of portion of the premises.

Financial Implications

Options 1 & 2 – The cost of conducting a market review of the facility is estimated at \$5,000 which could be funded from existing budgets. There is a risk that lease payments are not made for the period of any extension of lease, resulting in lower than budgeted revenues.

In the event the Lease is terminated, Council could negotiate with the other occupants which would result in Council having the benefit of these Lease agreements. However, consideration will also have to be given to insurance, utility and maintenance costs in these negotiations.

Option 3 – Would have no net effect on Council's current budget given that there would be no change in the current arrangement. It is projected, however, that the arrears will continue to accrue, thus continuing to have a negative impact on Council's cashflow and a decline in the asset.

Option 4 – This would result in a reduction of revenue of around \$60,000 per annum, which incorporates Council rent, rates, building insurance. Any subsidisation of utility costs, maintenance and repairs would be over and above this figure.

CONCLUSION:

It is recommended that Council maintains the Lease in holding over as a monthly tenancy while Council conducts a full review of the facility including identification of potential users and management options and models. A further report will be brought back to Council for consideration in March 2015 detailing the findings of the review.

There is also the potential for Koorana Gymnastics Club Inc and SA Amateur Gymnastics Association Incorporated who are both in occupation of portions of the premises, to enter into lease agreements direct with Council, should CASA not accept this proposal and seek to close the facility immediately.

Appendix 1 - MLFC Business Strategy (October 2014)

MLFC Business Strategy October 2014



1 SUMMARY

The Marion Leisure & Fitness Centre (MLFC) is 36-year old recreation facility used by the local community for recreation, sport and fitness activity seven days per week.

The Centre has been operated by Casa Leisure since 2003 after RANS Management went into receivership during 2002.

We initially provided support to Marion Leisure & Fitness Incorporated to develop a sustainable community business. At the time the facility supported approximately 800 fitness members, had low stadium occupancy and was over-staffed. We reduced the operating costs and increased revenue immediately resulting in a sustainable financial model within 6 months.

Under Casa Leisure's stewardship MLFC had never recorded an operating loss until Financial Year 2012/13.

The financial performance of the facility has deteriorated in the past three years, following the opening of the SA Aquatic & leisure Centre and then the subsequent arrival of eleven new fitness businesses within our catchment.

Prior to the emergence of these additional fitness competitors in 2011, MLFC generated \$860,496 income through Health & Fitness. Three years later fitness income generated \$552,132, a reduction of \$308,000 per annum.

The current operating position is a thus direct result of reduced health & fitness activity. In 2006/07 the facility provided a net profit of \$101,157, and seven years later a net operating loss of \$127,000.

Fitness industry experts advise the sector has changed more rapidly in the past 5 years than at any other time in more than 30 years. Fitness Australia (Peak body) has also indicated there is an expected consolidation of providers in the next 3-5 years due to market saturation.

Regardless of the financial position, the Centre records extremely high patronage., including more than 900 active fitness members.

General stadium occupancy remains high and in reality near capacity, where over the past 10 years there is minimal change in total occupancy of the three sport stadiums.

Casa Leisure owns all equipment located throughout the Centre.

2 STADIUM DATA

The two sport stadiums remain extremely well patronized and generate more income each year. The total occupancy of the stadiums has remained stable due to this high usage. In reality there has been minimal occupancy due peak periods for 10 years whilst we have successfully manage the changing needs of user groups.

MLFC Business Strategy October 2014



Peak occupancy generally remains between 90-100% for six months of the year, where there is very little available court space on weekends or evenings after 6pm.

The only realignment necessary to the sports stadium was during 2011 when basketball infrastructure was installed. This followed a contractual requirement for Volleyball SA to relocate competition programs to the purpose-built Brighton High School volleyball stadium. Casa Leisure invested more than \$60,000 to install basketball infrastructure at MLFC to make the facility truly multipurpose.

The table below provides data on the Total Annual Occupancy (measured in hours) and Total Income generated through the stadium. This information confirms the high, stable occupancy rates and growing income.

We have successfully increased the income generated each hour that court is utilized from below \$40 to above \$50 per hour. There is limited capacity to increase this further without reducing occupancy.

STADIUM ACTIVITY	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Current
Stadium Income	\$291,252	\$338,028	\$344,436	\$374,544	\$360,756	\$375,252	\$375,696	\$123,327
Occupancy (hr)	7396	7160	7259	7663	7256	7494	7471	2271
Income per hour	\$39.38	\$47.21	\$47.45	\$48.88	\$49.72	\$50.07	\$50.29	\$54.31



3 HEALTH & FITNESS DATA

We have constantly refined the health and fitness services available at MLFC to meet industry trends and community need.

Casa Leisure has constantly re-invested funds at MLFC to deliver quality services including ongoing capital upgrades of fitness equipment, the introduction of RPM (cycle) classes

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Appendix 1
MLFC Business Strategy (October 2014)

MLFC Business Strategy October 2014



and establishing a group training studio. In excess of \$500,000 has been invested directly in equipment at MLFC.

External factors, beyond what was reasonably foreseeable, have adversely impacted on fitness activity at MLFC. The introduction of more than 12 facilities into the local catchment has diluted our market share considerably.

This experience is consistent with other large long-term providers, who indicate a decline of 30 - 40% in membership numbers is standard in competitive environments.

The pre-sale of fitness memberships at the SA Aquatic & Leisure Centre commenced in April 2011. At this time MLFC had 1654 members. The Council report submitted in May 2011 outlined our expectation that fitness numbers would now decline – based on feedback from existing members. Subsequent monthly Council reports outlined our concerns for the fitness business at MLFC and the impact a competitive environment.

A memo was provided to Thea Marrone in March 2014, in response to queries raised regarding the declining H&F activity.

The following table outlines recent H&F history at MLFC. Whilst general membership numbers continue to decline, group fitness attendance remains healthy where on average, 15 participants attend each one of the 50 weekly classes.

FITNESS ACTIVITY	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Current
Ave. H&F Income	\$64,648	\$66,949	\$67,587	\$71,708	\$67,427	\$52,391	\$46,011	\$42,056
Ave. H&F members	1735	1677	1681	1696	1434	1190	987	968
Weekly classes	61	60	58	58	56	52	51	50
Ave. Class attendance	19	17.9	19.2	18.3	17.1	16.8	15.3	14.6



MLFC Business Strategy October 2014



MLFC does remain a desirable venue for fitness. This is reinforced by the fact that our retention rate (those member's whose pass expires during the month and can renew) has been above 60% over the past 6 months. Essentially this means current members are satisfied with the facility and services. The industry retention benchmark remains 30%, and for many years MLFC averaged 35%.

In 2011 we sold on average 149 memberships per month including a retention rate of 38% and averaged more than 40 enquiries per week. In 2014 we average 106 sales per month and a retention rate of 47% and have less than 20 enquiries per week. A direct result of more direct H&F competition.

A comprehensive review of the crèche services in May, indicated that 161 different parents used the service during the month, and an average of 26 children were supervised each day. The crèche remains an essential service to support daytime use by mothers and other care givers.

Our key users are now those not attracted to commercial 24-hour facilities, mothers and the elderly.

4 OPERATIONAL DATA

The current contract was entered into in 2008/09, when at that time there was no indication of future pressures. Since this time we have continually reviewed the operating model required to deliver programs and services for the community.

The current operating structure has resulted in more than the 2.5 FTE being removed over the past 3 years.

The current structure, where the Manager works 20-30 hours per week in direct service (ie sports programming and customer service) is not sustainable long term. Such an operating model will result in higher staff turnover and a diminishing quality at MLFC.

We have always endeavored to balance the 'service' expected by the community with financial sustainability. The table below reveals the total revenue generated and staff salaries each month at MLFC, in addition to the final annual operating position.

For the current year the financial position appears extremely encouraging. The surplus is expected to reduce significantly through December and January (low income months), and with any extreme weather. Last year we lost in excess of \$20,000 through cancelled stadium activity due to Hot Weather Policies.

We currently remain \$15,000 ahead of budget expectations in the current year.

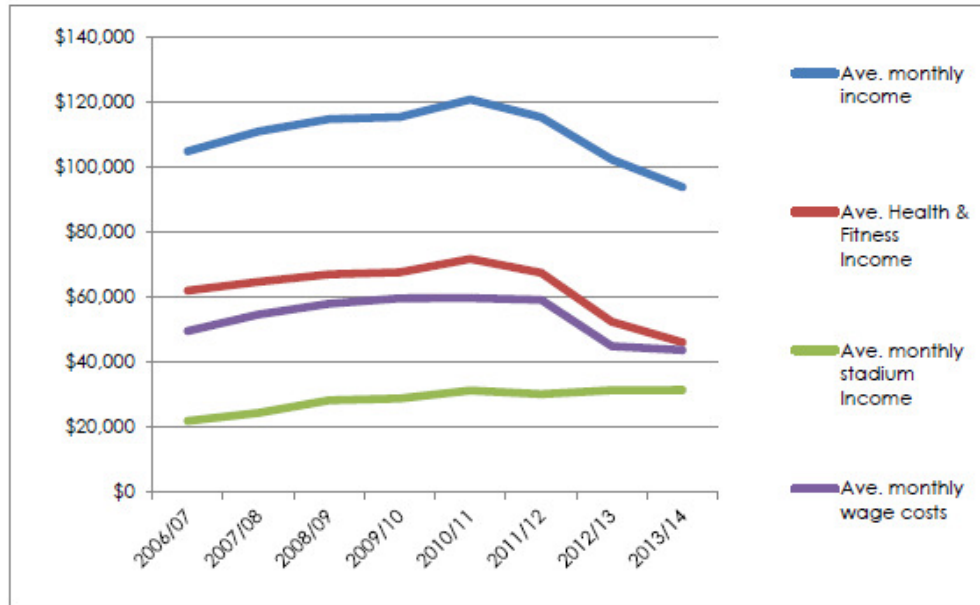
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Current
Income (mth)	\$110,909	\$114,769	\$115,358	\$120,792	\$115,338	\$102,293	\$93,844	\$105,980
Wage Costs (mth)	\$54,549	\$57,931	\$59,552	\$59,684	\$59,114	\$44,787	\$43,615	\$38,895
Annual Profit/Loss	\$92,676	\$76,728	\$17,688	\$78,324	\$31,524	\$48,864	\$127,284	\$32,271

MLFC Business Strategy (October 2014)

MLFC Business Strategy October 2014



The following graph demonstrates the variations in Total Income, H&F Income, Stadium Income and Wage Costs on a monthly basis since 2006/07. The gap between revenue generated from the stadium compared to fitness activity has changed dramatically in the past two years.



Graph 1. Annual variations in key operating items

5 COUNCIL REIMBURSEMENTS

The existing contract requires reimbursement of a number of operational expenses to Council. Casa Leisure is also responsible for all general maintenance, grounds maintenance, WH&S, security and other asset management costs.

The following expenses have been reimbursed to Council and included within our annual financial statement.

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Rent	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Profit Share	\$30,078	\$15,754	\$17,746	\$0	\$16,161	\$650	\$0	\$0
Council rates	\$9,212	\$9,854	\$11,545	\$11,856	\$13,373	\$14,425	\$15,974	\$16,476
Water rates	\$7,552	\$3,080	\$9,121	\$4,618	\$7,834	\$8,207	\$6,500	\$17,062
ESL	\$0	\$440	\$518	\$431	\$570	\$0	\$596	\$596
Building Insurance	\$17,421	\$16,874	\$17,650	\$20,324	\$21,350	\$15,199	\$15,579	\$15,814
TOTAL Costs	\$94,263	\$76,002	\$86,580	\$67,228	\$89,288	\$68,481	\$68,649	\$79,948



6 FINANCIAL POSITION 2014/15

We have prepared two budgets for 2014/15 given the uncertainty of the fitness market.

Version one is based on growth through Health & Fitness during 2014/15. Here we have assumed the membership has 'bottomed out' and growth in the membership would be achieved through summer increasing to 1100.

Version two is considers the membership remaining at approximately 1000 residents.

No budget was prepared for ongoing decline in the membership. Based on the information provided below the result of continual reduction in market share is obvious.

We estimate that the removal of Council overheads – Rent, Building Insurance, Rates and ESL would reduce operating costs by \$65,600 in 2014/15 and guarantee to the viability of the business for the community.

We cannot establish a sustainable business model without a reduction in the operating overheads from the original contract in 2004.

	Version 1	Version 2	COM Overheads
Stadium Usage	\$466,984	\$466,984	\$466,984
Health Club	\$589,776	\$542,866	\$542,866
Kiosk Income	\$113,600	\$113,600	\$113,600
Cost Goods Sold	\$82,436	\$82,436	\$82,436
Secondary Spend	\$31,164	\$31,164	\$31,164
TOTAL INCOME	\$1,087,923	\$1,041,033	\$1,041,033
Wages Total	\$455,483	\$455,483	\$455,483
Staff On-costs	\$60,124	\$60,124	\$60,124
Staff Expense	\$5,040	\$5,040	\$5,040
Maintenance	\$123,200	\$123,200	\$123,200
Utilities Total	\$106,000	\$106,000	\$86,000
Program Expense	\$143,086	\$143,086	\$143,086
Administration	\$168,653	\$168,653	\$123,053
TOTAL EXPENSES	\$1,061,586	\$1,061,586	\$995,986
GROSS PROFIT / (LOSS)	\$26,337	\$20,553	\$45,047





7 BUSINESS MODEL

When reviewing our operating costs there are now no further savings which can be extracted from the business. Significant changes to the business model have been implemented in an effort to operate as efficiently as possible over the past 3 years.

A realignment of our operating model sharpened the emphasis on retaining market share in a highly competitive health & fitness environment. This incorporated additional support from the Casa Leisure Executive and shifting the Manager's focus to Membership Services (new sales and member retention) with no return.

In reality MLFC is likely to support between 900 and 1000 members over the next 12 months. The prospect of attracting member numbers in excess of 1500 (as previously obtained) is not possible in the current climate without a significant reduction in price – The Blackwood Fitness Centre now offers a 12 month membership for \$150 and has 5000 members. Such a model is not compatible with the local community needs.

Ongoing investment will be required to retain current members. In 2012/13 we invested \$120,000 in new fitness equipment to ensure MLFC remained competitive in the local market. An additional investment of up to \$100,000 will be required in the next 12-18 months for equipment upgrades.

The 'Operations Coordinator' role, which supports the Centre Manager, was removed 3 months ago. The Manager now delivers direct service within the Centre through operational shifts on reception and running indoor sport competitions. This is unusual in a facility of this size, but necessary at present to reduce operating costs.

Other actions implemented to develop a sustainable business model include:

- Refined the front-of-house staff structure and subsequently reduced staff wages
- Transferred Personal Trainers from employment to contractor
- Constant review of group fitness classes, removal of classes attracting less than 10 participants
- Refined opening times for crèche to align directly with morning fitness classes
- Employed a marketing officer to generate PR and social media
- Introduced additional flexible membership options (no contract term)
- Introduced a retail outlet for gym & sport fashion wear – subsequently removed after 12 months
- Introduced user-pay Group Training sessions for small groups
- Provided Customer Service support to the growing Playgym program (kid's gymnastics offered in Koorana)
- Increased social sport fees each season

Over the past 24 months our focus has not been entirely on removing staff costs. We also introduced personnel and roles in an effort to increase revenue streams by employing a

- Full-time Business Development Coordinator
- Full-time H&F Sales Officer
- Full-time Stadium Coordinator
- Permanent Marketing Officer



8 COMMUNITY DEVELOPMENT

MLFC should provide a balance of commercial and community activity. To date, Marion Council has supported the balance of programs available from MLFC.

MLFC should continue to provide fitness programs and services to sections of the community not adequately supported by commercial operators. We continue to deliver a number of these programs including:

- ✓ Strength For Life – COTA initiative for Over 50's
- ✓ Fit 4 Life classes – light paced aerobics for over 60's
- ✓ Walk 4 Life – a walking group which introduces new elderly to the Centre
- ✓ Daytime Crèche for parents
- ✓ Club 13/16 – supervised fitness for teenagers

In March MLFC manager Teal Watkins attended a meeting at with Craig Cooper and John Henderson at Marion Swimming Pool to explore the possibility of joint activity between the two local facilities – summer membership options, spa & sauna use, crèche. Follow up information was sent to Council Officers in April but received no support.

Rob Heinjus met with Margi Whitfield in July to determine to possibility of aligning of community-based recreation activity delivered at MLFC with local community recreation facilities operated by Council. There was no interest in pursuing this due to our status as a 'commercial' provider, a potential conflict with the YMCA and status of contract.

For the MLFC to remain a relevant 'community provider' of recreation the facility's services and programs should be aligned with similar community facilities operated by City of Marion. We believe such initiatives must be explored and will be mutually beneficial.

We recognize the social needs of our elderly members, and actively facilitate friendships and networks through a monthly morning tea. This morning tea is provided for fitness groups and badminton players. In 2014 we also supported the Biggest Morning Tea and generated more than \$500 for Cancer research. Staff volunteered to bake products and sell items on the day.

From a commercial perspective, the competitive advantage of this aged facility is that it is a multi-purpose 'community' Centre. This advantage needs to be exploited when there is an abundance of commercial fitness operators in the local area.





9 RECENT ACTIVITY

We cannot identify activity to compensate for the \$300,000 no longer generated through health & fitness. Instead niche programming and a Continuous Improvement approach to the entire business is required to keep the facility relevant, and retain the high occupancy rates.

Our strategy remains to aggressively pursue new business, retain existing clients and constantly refine the business operations. During the recent period of declining H&F we have remained pro-active in attempting to address the situation.

All actions are undertaken to generate awareness of the facility

- ✓ Bootcamp sessions revived as stadium and external sessions (ie beach, Mt Lofty)
- ✓ Attracting a prominent Personal Trainer to deliver his Bootcamp for women
- ✓ Extensive lead generation through Scoopon to generate new business. This has included gym, personal training, roller skating, kids soccer, sports clinics offers and attracted more than 1000 direct actions (redeemed passes)
- ✓ Introduced Group Training sessions in the underutilized gym space, catering for groups of up to 6 people – currently offer 10 sessions per week
- ✓ Walk 4 Life class introduced on Friday morning. This 30 minute session encourages new elderly participants into the facility via a non-threatening means with the Strength For Life Instructors
- ✓ Expanded Playgym from three sessions per week to one each weekday
- ✓ Attracted Once Upon A Market to continue the longstanding monthly market following its demise
- ✓ Expanded Ready Steady Go programming for pre-school children and are now training centre for all new franchises (including international)
- ✓ Introduced Kid's Disco each school holidays to attract new families (average more than 100 children per disco)
- ✓ Expanded Birthday Parties to include Discos in the fitness room Saturday and Sunday afternoon
- ✓ Expanded our School Fitness program (School Fit)
- ✓ Aligned ourselves with Active Ageing to support their '5 for 10' program
- ✓ Commenced Indoor Hockey program with Hockey SA
- ✓ Attracted social basketball activity through Sturt and South Adelaide District Clubs
- ✓ Leveraged of success in Vacation Care to develop a School excursions program during the school term
- ✓ Remodelled the options for Vacation Care due to its success (always at capacity) to incorporate additional shorter sessions
- ✓ Introduced Roller Sports and roller skating as core children's program
- ✓ Upgraded website to include online bookings for group training and improved 'live' scheduling of indoor sport competitions

A number of other programs have been explored and trialled over the past 12 months including Hot Shots Tennis, additional COTA sessions and Parkour. In addition we pursued a local business partnership strategy that proved unsuccessful.



10 FUTURE OPTIONS

Ongoing investment into the facility and community is necessary for MLFC to remain a preferred provider of recreation for local residents.

In our March meeting (with Council) we indicated that future options to alter H&F services now encompass drastic action. This may incorporate removal of group fitness and/or crèche services from the Centre, or closure of the gym.

Such action would significantly disadvantage the local community and result in huge public outcry. The membership base remains in excess of 900 local residents and our crèche analysis identified more than 150 different families using the services each month. In addition our current fitness statistics suggest there are more than 750 individual visits to group fitness classes each week. Removing either crèche or group fitness would be a mistake, and instead constant refinement is necessary.

Our preference is to find a method to increase fees for fitness activity. The competitive nature of the industry means pressure has increased in the past 3 years such that prices are now significantly lower than they were in 2011. It is expected that this may change in the next 12 months if the industry stabilizes and no further operators enter the local market.

The other option to improve health & fitness involves conversion into a 24/7 operation. Such a decision would require significant investment in the building – access, toilets etc – to develop a long-term business model for MLFC.

Casa Leisure invested \$120,000 less than two years ago to upgrade H&F equipment (pin loaded machines) and it is expected a similar amount will be required in the next two years to support fitness activity.



11 2015 PRIORITIES

There is no simple solution to remedy the current situation.

We have requested a variation to the current contract since the fixed operating reimbursements impact on our ability to invest in the facility, and allocate the



appropriate resources to MLFC. Under the current model, removal of these costs are expected to ensure a final position above breakeven.

If these operating costs are removed we are prepared to negotiate a revised profit share arrangement to allow Council a return for any profit generated at MLFC.

MLFC will become the desired location for recreation and fitness for Baby Boomers. This remains the market segment MLFC appeals to as a Community leisure facility, so we must continue to maximize program opportunities for these members. Retention rates of Baby Boomers are also much higher than 20-30 year old members.

Our business priorities for the current financial year are to:

- 1 Manage the existing staff structure
- 2 Retain 950 - 1000 members through innovative sales and service techniques
- 3 Incrementally increase membership fees
- 4 Implement a summer marketing strategy for health and fitness
- 5 Develop a new social media strategy to include Facebook, Instagram and Twitter to improve customer engagement
- 6 Attract two additional personal trainers as contractors operating their own business from MLFC
- 7 Develop the 'Back in the Game' program of modified rules sport for Seniors
- 8 Expand Playgym from 5 sessions per week to
- 9 Develop a social junior FUTSAL competition
- 10 Annual Customer Satisfaction Survey in March
- 11 Expand user-pay Group training from 10 sessions per week to 15 sessions
- 12 Expand Kid's Discos to incorporate school excursions, Vacation Care and afterschool sessions
- 13 Relaunch Mature Movers, an externally delivered program through Aged Care providers
- 14 Expand the School Fit program through local primary schools during term one
- 15 Partner My Active Community in the development of inclusive recreation programs such as 'the Bicycle Recycle project' and 'Gym Down South' with SCOSA

