

**CITY OF MARION
GENERAL COUNCIL MEETING
24 MAY 2016**

Confidential Report

Originating Officer: Carol Hampton, Manager City Property
General Manager: Abby Dickson, General Manager City Development
Subject: Marion Leisure & Fitness Centre
Report Reference: GC240516F01

If the Council so determines, this matter may be considered in confidence under Sections 90(3)(b) of the Local Government Act 1999 on the grounds that it relates to matters that may prejudice Council's commercial position.



Adrian Skull
Chief Executive Officer

RECOMMENDATION: (1)

1. That pursuant to Section 90 (3)(b) of the *Local Government Act 1999*, the Council orders that all persons present, with the exception of the following persons: Adrian Skull, Chief Executive Officer; Abby Dickson, General Manager City Development; Tony Lines, General Manager Operations; Vincent Mifsud, General Manager Corporate Services; Kate McKenzie, Manager Corporate Governance; Carol Hampton, Manager City Property; Jaimie Thwaites, Unit Manager Governance & Records; Yvette Zaric, Governance Officer; Craig Clarke, Unit Manager Communications, be excluded from the meeting as the Council receives and considers information relating to Marion Leisure & Fitness Centre 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 operations of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of Council.

CONFIDENTIALITY CONSIDERATIONS

This report contains information on the proposed future operations of the Marion Leisure Fitness Centre (MLFC) including commercial arrangements which if considered in public may prejudice both Council's and the respondent's commercial position in the process.

REPORT OBJECTIVES:

To provide a report to Council on the select tender process for the management of the stadium areas in the MLFC.

EXECUTIVE SUMMARY:

The Marion Leisure and Fitness Centre (MLFC) forms a significant part of Council's community infrastructure and is located in a high usage precinct which includes the Oaklands Wetland and Recreational Plaza, the Marion Outdoor Swimming Centre and the Sturt Creek linear track. The Centre is currently being managed by the YMCA South Australia (YMCA) who were engaged in February 2015 as an interim operator. There are also two long standing sub tenants, Koorana Gymnastics (Koorana) and Gymnastics SA (GSA). The Centre currently receives approximately 19,000 visitations per month.

At the General Council meeting on 24 November 2015 Council resolved to undertake a Request for Proposal process where Council tested the market for a suitable management model for the MLFC.

At the General Council meeting on 22 March 2016 (refer GC220316F01) Council considered the outcomes of the Request for Proposal process and resolved not to award a contract and requested a further report be brought back to Council regarding alternative management options for the stadium areas. At the General Council meeting on 26 April 2016 (GC260416F02) a confidential update on the progress of the resolutions from the 22 March General Council meeting was provided, as well as additional information to enable Council to determine the next steps in resolving the future use and management structure for the MLFC. Council authorised *the CEO to directly seek proposals from suitably qualified health and fitness operators for the management of the Marion Leisure and Fitness Centre stadium areas (GC260416F02).*

A select tender has been undertaken with four suitably qualified health and fitness operators and in line with the Council resolution passed at the 26 April 2016 meeting were assessed against the following criteria:

- Capacity and experience of the operator
- Financial impact
- Form of Agreement
- Community outcomes

The proposal submitted by the current operator of the Centre, YMCA South Australia, is recommended to Council on the basis; they are a suitably experienced operator; provided the most favourable financial return to Council; will share the financial risks and will deliver positive community benefits.

RECOMMENDATIONS (5)**DUE DATES****That Council:**

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| 1. Endorses the outcomes of the select tender process and the appointment of the YMCA South Australia as the operator of the Marion Leisure and Fitness Centre for the stadium areas and the delivery of allied health wellness programs. | 24 May 2016 |
| 2. Authorise the Chief Executive Officer to sign and execute a 5 year contract with the YMCA South Australia to manage the Marion Leisure and Fitness Centre stadium areas and wellness program from 1 July 2016 to 30 June 2021. | 24 May 2016 |
| 3. Endorse that the Gym, Spa and Sauna services currently delivered from the Marion Leisure and Fitness Centre cease operations as of 31 August 2016. | 24 May 2016 |
| 4. Delegate authority to the CEO to dispose of Gym and Fitness Equipment. | 24 May 2016 |
| 5. 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 Tender outcomes and the minutes arising from this report having been considered in confidence under Section 90(2) and (3) (b) of the Act shall, except when required to effect or comply with Council's resolution(s) regarding this matter, be kept confidential and not available for public inspection for a 7 day from the date of this meeting. | 24 May 2016 |

BACKGROUND

The MLFC forms a significant part of Council's community infrastructure and is located in a high usage precinct which includes the Oaklands Wetland and Recreational Plaza, the Marion Outdoor Swimming Centre and the Sturt Creek linear track.

The facility was built in 1978 and was independently valued at \$7,558,020 in 2013 by Maloney Field Services. The facility is located on Community Land.

In February 2015 an interim operator, YMCA, was engaged to manage the MLFC. The YMCA took over operations on 20 February 2015 when CASA Leisure (CASA) vacated the premises. YMCA had an agreed term to 31 May 2016.

Council requested that a review of the MLFC be undertaken to identify potential future service delivery options. SMC Consulting was engaged to undertake the review and the report was noted by Council at the 24 November 2015 General Council Meeting (GC241115F02).

A Request for Proposal (RFP) process was undertaken from 18 January to 26 February 2016 that asked respondents to supply details on proposed activities and services to be offered, Business Plan, demonstration of professional capacity and experience and financial information.

Two proposals were received and assessed against Proposal Outline, Business Plan, Professional Capacity and Experience and Financial Benefit.

The outcomes of the evaluation of the proposals were provided in a detailed report to the General Council meeting on 22 March 2016 (GC220316F01). Council resolved not to award a contract and concluded the tender process through the following motions:

1. *Resolve not to award a contract to either of the two tenderers and advise them*
2. *Authorise the CEO to extend the current interim management with the YMCA South Australia up until 30 June 2016*
3. *Negotiate leases up to 21 years (subject to public consultation requirements) with Gym SA and Koorana Gymnastics which includes rental increases of 10% per annum for each of the next 5 years and annual CPI increases thereafter*
4. *Request administration to provide a report to the 26 April 2016 General Council meeting on the following:*
 - *management options for the three stadium areas;*
 - *inviting the scope for an Expression of Interest for use of the space currently occupied by the YMCA gym and associated facilities;*
 - *current gym membership including residence, duration of membership and options as to how they may be supported in transition to alternative facilities*
 - *Financial analysis of options*

Following the 22 March 2016 General Council meeting, the two tenders were advised of Council's decision not to award a contract concluding the RFP process and negotiations commenced to secure long term leases with Gym SA and Koorana.

At the General Council meeting on 26 April 2016 (GC260416F02) a confidential update on the progress of the resolutions from the 22 March General Council meeting was provided and direction was sought from Council in resolving the future use and management structure for the MLFC. Council authorised the CEO to directly seek proposals from suitably qualified health and fitness operators for the management of the Marion Leisure and Fitness Centre stadium areas (GC260416F02).

This report informs Council of the outcomes of the select tender process undertaken and recommends an operator for the stadium areas for Council's consideration.

DISCUSSION:

Select Tender Results

The select tender process was undertaken for the period of 29 April 2016 until 13 May 2016, six organisations were contacted and four responses to the tender were received. Proposals were assessed against the following criteria:

- Capacity and experience of the operator
- Financial impact
- Form of Agreement
- Community outcomes.

Information was also sought from respondents on level of insurance, financial position and quality management systems.

The table below provides a summary of the assessment scores for the four proposals received and only 2 respondents (1 & 4) demonstrated they have the capacity and experience to operate the Centre.

Respondent	Score
Respondent 1	62
Respondent 2	53.3
Respondent 3	38
Respondent 4	73

Respondents 2 and 3 have considerably less experience in managing stadiums, their transition plans and organisational capacity to mobilise resources to efficiently takeover operations were of a lower standard.

It should be noted that respondent 3 did not provide any financial modelling or 5 year budget in their proposal although they referred to a \$50k p.a. base payment. Their proposal also contained a disclaimer that due diligence was required before they could commit to any financial arrangement. Audited financial statements also showed the organisation operating at a loss in 2015 and 2016 which may pose a risk to Council.

Both respondent 1 (Belgravia) and respondent 4 (YMCA SA) are experienced stadium operators and have the capacity to take over the facility in a short time frame. Both respondents outlined a well-planned transition plan and demonstrated a good understanding of community health. Both operators have extensive experience in running sport and recreational centres for Councils and demonstrated their experience in running successful community based wellness programs.

There was, however a significant difference in the financial arrangements and benefit to Council proposed by both providers resulting in the YMCA SA being recommended to Council as the preferred operator.

Financial Proposal - Belgravia

Belgravia's financial proposal and projected budget has the Centre operating at a deficit for a period of 5 years and this is detailed in the table below.

	Year 1	Year 2	Year 3	Year 4	Year 5
Income	\$450,000	\$474,450	\$498,173	\$513,118	\$528,511
Expense	\$546,994	\$565,028	\$582,681	\$600,162	\$618,167
Net Deficit	-\$96,994	-\$90,578	-\$84,509	-\$87,044	-\$89,655

The operating deficit includes the annual management fees to be paid to Belgravia:

- Management fee, starting at \$21,885 in the first year
- Head office support fee, starting at \$43,769 in the first year

In year 3 Belgravia would seek to negotiate with Council an annual lump sum payment for the management of the Centre.

Council would be fully liable for any operating losses.

Financial Proposal - YMCA

The YMCA proposal provides a more favourable financial return to Council with the following 5 year projection for management of the stadium areas only:

	Year 1	Year 2	Year 3	Year 4	Year 5
Income	\$496,002	\$510,971	\$526,388	\$542,268	\$558,625
Expense	\$480,775	\$493,791	\$507,197	\$521,005	\$535,228
Net Income	\$15,227	\$17,180	\$19,191	\$21,263	\$23,397

The management fee to be paid to the YMCA, which is included in the expense line in the table above is 10% of agreed projected revenue and averages \$52k per annum over the 5 years of the proposed lease.

Profit/Loss share

- The YMCA and Council will share equally in any actual operating profit i.e. if the net operating result is better than breakeven then the council would receive 50% profit share contribution.
- The YMCA and Council will share equally in any actual operating loss i.e. if the net operating result is worse than breakeven then YMCA will cover 50% of the loss share contribution up to a maximum of \$20k per annum.

The YMCA was the only proposal that included the joint sharing of financial risk.

Wellness Model for use of areas other than stadium

Further to the above model the YMCA also provided an additional option for Council's consideration which includes the delivery of allied health programs using the non-stadium areas. This option delivers an increased operating surplus in the order of \$60,500 per annum across a 5 year period.

The YMCA's 'value add' proposal will see continued development of the stadium operations as outlined above, however will also include development of a wellness centre addressing the allied health needs of the community. The proposal includes the following components:

- Wellness Membership
- Engagement and Activation activities for Older Adults
- Rehabilitation Services
- Integration opportunities for people living with a disability

The YMCA has well established partnerships with key organisations to support and enhance our proposed wellness model. Some of the activities and programs to be offered would include:

- Obesity Prevention Programs
- Diabetes Prevention Programs
- Gentle Exercise
- Exercise Physiology

The Wellness program will be delivered from the ground floor areas currently used to provide a gym and fitness services. The YMCA will re-purpose these areas to accommodate the wellness model. This program does not include the spa and sauna area.

Should Council approve this model the YMCA would seek to retain some of the gym equipment which is valued in the order of \$23k. None of the proposed equipment is expected to require replacement during the initial contract term and will be maintained within the YMCA tendered

budget allocation for preventative and reactive maintenance. The YMCA's proposal indicated they would replace and/or add additional equipment as membership revenue grows to compensate for any increased expense incurred through leasing or depreciating equipment. In addition, the YMCA has the ability internally to relocate equipment from other YMCA facilities to ensure continuity of service for members.

The projected income and expense and overall net position for the Wellness Centre option are summarised in the table below. The additional income derived from the Wellness program projects an increased operating surplus.

	Year 1	Year 2	Year 3	Year 4	Year 5
Income	\$662,132	\$666,142	\$688,843	\$712,386	\$736,720
Expense	\$591,844	\$613,481	\$632,546	\$652,272	\$672,674
Net Income	\$70,288	\$52,661	\$56,297	\$60,114	\$64,046

The financial proposals submitted by the respondents were analysed against the past 12 month's actuals for the MLFC. Analysis of the revenue lines are all generally in line with actuals with some reduction to reflect loss of patronage and therefore should be achievable.

The YMCA proposal has sought to reduce expenditure in the area of staffing, insurance and cleaning which has been made possible through the removal of the Gym and streamlining of the existing staffing structure. Management fees have been significantly reduced to less than half of the current management fees.

Maintenance

The YMCA proposal indicates they will commit \$25k towards preventative and reactive maintenance. The YMCA will not cover individual maintenance work which is greater than \$3k. It should be noted that the GHD building condition audit has an average spend on repairs and maintenance over the next 5 years at \$27k per annum however there are some large repairs noted for 2017/18 in the order of \$200k. Council will need to cover these costs.

Open Reporting and Performance Criteria

Should Council endorse the YMCA SA as the operator for the MLFC the following performance measures and monitoring systems will be put in place:

- Performance KPIs
- Setting of annual budget and business plan
- Monthly financial and service reporting against business plan objectives and budget
- Ongoing open book approach to the budget

Gym SA and Koorana Leases

Rental revenue from GYM SA and Koorana will be paid directly to Council and this is in the order of \$70k per annum. Negotiations are currently underway with Gym SA and Koorana to include payment of utility costs in their lease agreement to ensure this operation of the Centre is managed separately.

Transition support for Gym Members and Spa and Sauna users

Council at the 22 March 2016 General Council meeting requested that Administration provide further information in regards to the Gym Membership and develop options for Council's

consideration as to how Gym Members would be best supported if the fitness/gym/health club component of the MLFC ceased.

As of the 31 March 2016 there were 689 gym members. There are over 30 different types of memberships with varying conditions and expiry dates.

It is recommended that existing Gym Members are provided with details of local gyms and fitness centres and their remaining membership is paid out in full. To enable sufficient notice and allow members to make alternative arrangements it is proposed that the gym, spa and sauna facilities cease operation from 31 August 2016.

Community Impact and Reputational Risk

The current usage of the MLFC is high with the Centre receiving approximately 19,000 visitors per month. It is one of Council's most heavily used facilities generating 228,000 visitors per annum. Changes to service delivery such as the discontinuation of the Spa and Sauna and Gym will generate significant community interest.

Communication Strategy

The future of the MLFC is likely to attract considerable community and media interest and a proactive communications strategy will be developed to support the decision of Council. Two communications scenarios have been considered as part of this report:

1. Announcement of Long Term Operator

Council follows a similar communications process that occurred during the transition from CASA to the YMCA. This involved a joint communication with the new operator to inform members directly of the new arrangements. Brochures and posters are also made available at the centre and information provided on COM and the new operator's websites. The aim is to provide information to members as quickly as possible about the new management arrangements and, depending on the nature of the change, reassure users that it represents a 'business as usual' approach.

A media release about the change in management will be issued to Messenger to ensure transparency and reduce the risks of incorrect reporting. Elected Members and Customer Service will be supported with communications materials to answer resident inquiries. We will continue to monitor media, social media and general correspondence respond accordingly.

1. Closure of the Gym and Spa and Sauna Services

This option risks incurring reputational damage to the organisation, regardless of the media and communications steps put in place.

To formally announce the changes, the City of Marion will aim to work in partnership with the YMCA to inform their customers and other stakeholders. The emphasis will be on direct written communications with affected parties explaining the decision and how Council will support them.

Messenger will receive a detailed briefing to explain the decision and the support that is being offered to affected members. A media release will also be prepared and, with the exception of Messenger, sent to other media outlets on request.

The communications will be supported by materials for Elected Members (including assistance with responding to resident inquiries), the Customer Service Centre, the website and social

media. Ongoing management will occur through monitoring and responding to news media, social media and general correspondence.

It is recommended that Council cease operating the Gym, Spa and Sauna as of 31 August 2016, providing existing customers with three months' notice and sufficient time to make other arrangements to meet their health and fitness needs.

CONCLUSION

The MLFC forms a significant part of Council's community infrastructure and is located in a high usage precinct which includes the Oaklands Wetland and Recreational Plaza, the Marion Outdoor Swimming Centre and the Sturt Creek linear track. The Centre delivers significant outcomes under Council's Strategic Plan under the themes of a liveable, engaged and prosperous City.

Council has undergone an extensive tender process to select an operator who delivers positive community outcomes and establish a Centre management model which is financially sustainable and represents value for money for City of Marion residents.

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