

**CITY OF MARION  
GENERAL COUNCIL MEETING  
24 November 2015**

**Confidential Report**

**Originating Officer:** David Barrett, Unit Manager Cultural Facilities  
**General Manager:** Abby Dickson, City Development (Acting)  
**Subject:** Marion Leisure & Fitness Centre: Future Options Review  
**Report Reference:** GC241115F02

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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 may prejudice Council's commercial position



**Adrian Skull**  
Chief Executive Officer

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; Acting General Manager; Abby Dickson, Kate McKenzie, Manager Governance; David Barrett, Unit Manager Cultural Facilities; Victoria Moritz, 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 details of a future directions for the Marion Leisure Fitness Centre and outlines a competitive tender strategy which if considered in public may prejudice Council's commercial position in the tendering process.

## **REPORT OBJECTIVES:**

To inform Council of the outcomes of the review of the Marion Leisure and Fitness Centre (MLFC) and recommend a process for Council's consideration to engage a long term operator for the Centre and establish a sustainable business model.

## **EXECUTIVE SUMMARY:**

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 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 receives approximately 19,000 visitations per month.

Council requested that a review of the Centre be undertaken to identify potential future service delivery options. SMC consulting was engaged to undertake the review and the full report is attached as appendix 1 to this report. Key recommendations from the review include:

- There is an opportunity to strategically review the fitness/gym/health club component of the MLFC, including a shift of product and service offerings from the prevailing traditional gym and fitness centre model, to a Wellness model, providing holistic health and well-being focused outcomes primarily targeted at the increasingly needy 50/55+ year age group.
- That long term sub leases or direct licenses should be considered for Gymnastics SA and Koorana but incorporating fair and reasonable yearly fee increases.
- That Council should not prop up failing and unsustainable business operations on an ongoing basis, even where they are providing a service for community good.
- That an EOI or tender strategy be developed to go to the market in regards to procuring facility management bids from the traditional facility managers and operators, as well as other community organisations and clubs.

This report outlines a strategy for Council consideration which recommends a Request for Proposal (RFP) be undertaken to secure an operator for the Centre which achieves a financially sustainable management model that delivers positive social and economic outcomes.

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

- |  |                  |
|--|------------------|
| 1. Receives the Marion Leisure Futures Directions report which is attached as appendix 1 to this report  | 24 November 2015 |
| 2. Authorise the CEO to undertake a Request for Proposal to secure a new operator for the Centre   | 24 November 2015 |
| 3. Require a report be brought to Council in April 2016 at the conclusion of the Request for Proposal which recommends the appointment of an operator and outlines the terms and conditions of the contract  | April 2016       |
| 4. Authorise the CEO to extend the interim management agreement with the YMCA until 30 June 2016   | 24 November 2015 |
| 5. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Council orders that this report, Marion Leisure & Fitness Centre: Future Options Review, appendix and the minutes arising from this report having been considered in confidence under Section 90 (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 period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the General Council Meeting in December 2015. | 24 November 2015 |

**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 when CASA Leisure (CASA) vacated the premises. YMCA has a minimum term to 28 February 2016 and thereafter ongoing (subject to termination by either party with 60 days' notice in writing to the other party from 30 December 2015 onwards). Termination prior to 28 February 2016 is subject to agreement by both parties. Should Council wish to terminate on 28 February 2016 then this needs to be communicated to the YMCA by 30 December 2015.

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 full report is attached as appendix 1 to this report.

**Current usage:**

The centre is a well-used facility and receives approximately 18,000 visitations per month. A breakdown in visitations is provided in the table below.

CATEGORY	MAR	APR	MAY	JUNE	JULY	AUG	SEP	TOTAL
Member Visits	2,228	4,793	5,077	4,943	4,937	5,423	5,427	32,828
Casuals	51	119	125	148	41	34	25	543
Group Fitness	1,089	2,700	3,616	3,082	3,051	3,076	3,026	19,640
Sports Programs	717	838	875	925	9,730	9,831	6,736	29,652
Personal Training Sessions	No Data	87	118	130	136	164	114	749
Play Club	300	345	326	298	592	605	820	3,286
Play Gym (Kinder Gym)	94	154	191	114	80	177	102	912
Birthday Parties	80	60	70	55	30	135	60	490
Total Centre Attendances	4,559	9,096	10,398	9,695	18,597	19,445	16,310	88,100

*Note: Accurate data capture for sports programs was implemented in July onwards with the YMCA taking over full management of programs*

The following organisations also operate from the MLFC and are long term tenants that provide rental security:

**GSA**

GSA has based its state headquarters at the MLFC since 1982 and is the peak body for SA's 66 clubs and approximately 16,000 members. It embraces eight gym sports which, as well as providing for elite athletes, positions it to promote a healthy lifestyle and active participation for athletes of varying levels of ability.

**Koorana**

Koorana has been operating from the MLFC since it opened in the 1978. It is the 2nd or 3rd biggest club in South Australia and has 400 members in its programs, mostly aged between 5 and 16, with a waiting list of 250 children. The club is supported by 60 volunteers, some who dedicate up to 30 hours per week.

**Scope of Review:**

SMC Consulting was engaged to undertake a comprehensive review of the MLFC and develop future options for the facility for Council's consideration. The review considered:

- MLFC performance with current service model
- High level market need analysis for health & fitness services within the City of Marion / catchment locale
- Current MLFC membership profile and usage data
- Likely future directions in health, fitness and recreational sector
- Potential management and service models including potential partnering with other services within the City and/or alternative uses of the building
- High level cost benefit analysis of asset renewal requirements or disposal. Including consideration of potential income from the facility, required maintenance costs and capital works
- Community and stakeholder impact including sub tenants

The review included engagement with key stakeholders within the Centre including YMCA, GSA and Koorana. Engagement with Fitness Australia also occurred.

## Findings from the review

- The MLFC is considered to be an important, long-term community strategic asset which continues to provide important community outcomes focused on positively affecting the physical and psychological well-being of, primarily, City of Marion residents.
- There is an opportunity to strategically review the fitness/gym/health club component of the MLFC, including a shift of product and service offerings from the prevailing traditional gym and fitness centre model, to a Wellness model, providing holistic health and well-being focused outcomes primarily targeted at the increasingly needy 50/55+ year age group. According to the peak body for fitness operators, Fitness Australia, this type of facility is not being done properly anywhere in Australia, at present.
- A more balanced and sustainable commercial cost/social & community benefits model for Council and stakeholders needs to be determined for the MLFC. This could be reached through a variety of ways, including:
  - Changing the MLFC operating model through product/program variance or shedding to bring about a reduction in operating costs;
  - A substantial business refocus and renewal,
  - By seeking to reduce costs and or subsidies through changing the Centre's management model and/or,
  - Closure of the fitness/gym areas.
- Council may generate better economic returns and greater community outcomes by splitting the fitness/gym/health club area and of the stadium/courts; and to be operated by two separate entities.
- Research shows that the fitness and gym market is at a point of saturation and is segmenting, rather than innovating – while competitive industries are evolving.
- That long term sub leases or direct licenses should be considered for GSA and Koorana but incorporating fair and reasonable yearly fee increases.
- That Council should not prop up, other than for short term purposes to allow a strategic review to occur, failing and unsustainable business operations, even where they are providing a service for community good.
- That an EOI or tender strategy be developed to go to the market in regards to procuring facility management bids from the traditional facility managers and operators, as well as other community organisations and clubs.
- That connections with the wider precinct ie Oaklands Wetland and Recreational Plaza, Sturt Linear Park, Marion Outdoor Swimming Centre be considered in the new management model

## GSA and Koorana Rental Agreements

Koorana and GSA are aware of the review and have expressed a strong interest in retaining operations within the Centre and they may possibly tender for Centre Management.

The review recommended that Council enter into negotiations for new, long term licenses with Koorana and GSA but which reflect a fairer and more equitable economic arrangement with Council. The review recommended that rents be increased in the order of 50%, staggered over the next 5 years, with perhaps a further 25% in the following 5 years.

It is recommended that Council enter into negotiations with both GSA and Koorana in early 2016 with a view of increasing rents to current market value. Any changes would be implemented on 1 July 2016 and would coincide with the new management model.

The existing sub tenants provide rental security and have the potential to assist in attracting an operator to the Centre.

## Recommended next steps

It is recommended that a RFP be undertaken where Council tests the market for a suitable management model for the MLFC which:

- Is financial sustainable,
- Delivers positive community outcomes aligned with Council's vision of Community Wellbeing, and
- Contributes to the wider precinct.

The benefit of a RFP is that Council remains open to a range of management models and does not go to the market with a predetermined position.

A briefing will be provided to interested parties and information packages will be made available which provide full details of the MLFC including current services, patronage, existing tenants and rent, site plans etc.

Proposals will need to provide consideration of the existing tenants GSA and Koorana.

Stage	Actions	Timeframe
<b>Request for Proposal</b>	RFP to include the following: <ul style="list-style-type: none"> <li>• Detailed business plan which demonstrates financial sustainability</li> <li>• Evidence of financial capability of the tenderer</li> <li>• Services to be delivered from the Centre (existing and new)</li> <li>• Community outcomes</li> <li>• Alignment with Council's strategic objectives</li> <li>• Proposed management model eg lease, management agreement, term of agreement</li> <li>• Capital investment</li> <li>• Relevant experience</li> </ul>	28 January – 28 February 2016
<b>Evaluate Proposals</b>	Proposals to be evaluated based on the	March 2016

	following criteria: <ul style="list-style-type: none"> <li>• Community outcomes</li> <li>• Financial return and sustainability</li> <li>• Capital investment</li> <li>• Alignment with Council's strategic objectives</li> <li>• Precinct activation</li> </ul>	
<b>Council consideration</b>	Report prepared for Council seeking endorsement of the recommended operator and terms of the new management model	April 2016
<b>Communication &amp; Consultation</b>	Communication strategy to inform community of the new management model  Any required legislative consultation undertaken in regards to the new management model	April – May 2016
<b>New Operator engaged</b>	Contracts executed with the new Operator	June 2016
<b>Handover</b>	New Operator in place	July 2016

### Interim Management Arrangements

It is recommended that YMCA be retained as the Centre operator up until 30 June 2016. This will provide Council with the time required to undertake a RFP, execute a new agreement and smoothly transition to the new service model.

The projected budget for the MLFC under the existing management of the YMCA indicates the extension of the interim management model will come at no additional costs to Council and/or deliver a minor operating surplus to be paid to Council.

### Consultation

In accordance with Section 202 of the Local Government Act 1999 and Council's *Leasing/Licencing of Council Owned Facilities* policy, public consultation is required if Council is considering entering into a lease agreement of more than 5 years on community land. As it is highly likely that any new agreement will be longer than 5 years, this required public consultation will need to occur.

### CONCLUSION

The review confirms that the MLFC forms an important part of Council's community infrastructure and that there is significant potential to re-purpose the Centre to deliver a financially sustainable model. This in turn will support the MLFC to contribute to the vibrancy within the Oaklands Precinct, deliver social outcomes and contribute to the Community Plan's vision of Community Wellbeing.

### Appendix 1 : Review of Marion Leisure and Fitness Centre : future options

**To: Abby Dickson, Acting Director, City of Marion**

**Subject: Review of Marion Leisure and Fitness Centre: Future Options**

**From: Consulting contractor:-**

**Sam Ciccarello, trading as smc management**

**Final Draft Review Report submitted 13 November 2015**



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## City of Marion

## Review of Marion Leisure and Fitness Centre: Future Options

13 November 2015

**1. Executive Summary**

- (i) The Marion Leisure and Fitness Centre, a Major Community Facility as specified in the Community Management Plan 3, is considered to be an important, long-term community strategic asset which continues to provide, through its purpose, important community outcomes focused on positively affecting the physical and psychological well-being of, primarily, City of Marion residents.
- (ii) The MLFC building was maintenance audited (Coffey Environments PL) in October 2007 and was deemed to have a remaining life span of greater than 30 years (viz, beyond 2037). No major or significant maintenance issues were identified in that report.
- (iii) It is considered that a more balanced, and sustainable commercial cost/social & community benefits model for Council and stakeholders needs to be determined for the MLFC.

This could be reached through a variety of ways, including:

- Changing the MLFC operating model through product/program variance or shedding to bring about a reduction in operating costs;
  - a more substantial business refocus and renewal/alternative purpose (of the gym and fitness areas); and/or
  - By seeking to reduce costs and or subsidies through changing the Centre's management model and/ or,
  - Closure of the fitness/gym areas.
- (iv) It is plausible that Council could generate better economic returns and greater community outcomes by splitting the fitness/gym/health club area and of the stadium/courts; and to be operated by two separate entities.
  - (v) Research shows that the fitness and gym market is at a point of saturation and is segmenting, rather than innovating – while competitive industries are evolving.
  - (vi) Council has the opportunity to consider taking on a leadership role in considering strategic, innovative, holistic and more collaborative community responses; and contemplates alternative services, amenities and programs that would aim to improve the health and well-being of an increasingly sizeable ageing population in the CoM.
  - (vii) It considered that there is an opportunity to strategically review the fitness/gym/health club component of the MLFC, including a shift of product and service offerings from the prevailing traditional gym and fitness centre model, to a *Wellness* model, providing holistic health and well-

being focused outcomes primarily targeted at the increasingly needy 50/55+ year age group. According to the peak body for fitness operators, Fitness Australia, this type of facility is not being done properly anywhere in Australia, at present.

It is considered that any review should be undertaken with potential collaborators and service delivery partners, possibly including the state and federal governments, key providers in the allied health industry, private health insurance org/s, and Fitness Australia.

- (viii) That it would be appropriate for the MLFC to continue as the home base for Gymnastics SA and Koorana Gymnastics Club Inc. and that each should be provided with opportunity for long term location surety and tenancy security.
- (ix) Long term sub leases or direct licenses should be considered for Gymnastics SA and Koorana but incorporating fair and reasonable yearly fee increases.
- (x) That Council should not as a general policy, prop up for other than short term purposes to allow a strategic review to occur and or alternatives to be considered, failing and unsustainable business operations, even where they are providing a service for community good.
- (xi) Following any strategic review, Council should determine:
  - (a) whether a Facility & Precinct Plan is required to be developed for the MLFC; and
  - (b) if necessary at this time, an EOI or tender strategy to go to the market in regards to procuring facility management bids from the traditional facility managers and operators, as well as other community organisations and clubs, in accordance with its facility outcome requirements determined at that time.
- (xii) It may be appropriate to negotiate for a short-term extension to the existing facility management agreement with the YMCA.

## **2. Review scope and deliverable**

In accordance with the consultancy brief (Annexure 1 – Specification) to the Professional Services Contract, undertake a comprehensive review of the Marion Leisure Fitness Centre (MLFC) and develop future options for the facility for Council's consideration. The review considered:

- Centre performance with current service model
- High level market need analysis for health & fitness services within the City of Marion / catchment locale
- Current MLFC membership profile and usage data
- Likely future directions in health , fitness and recreational sector
- Potential management and service models including, potential partnering with other services within the City and/or alternative uses of the building
- High level cost benefit analysis of asset renewal requirements or disposal. Including consideration of potential income from the facility, required maintenance costs and capital works

- Community and stakeholder impact including sub tenants

### **Deliverable**

Develop a report with high level future options for the MLFC which consider the community and stakeholder impact, financial impact, and overall alignment with Council's Community Plan and Asset Management Framework.

The review identified opportunities in relation to improved outcomes for Council and (internal and external) stakeholders.

This report aim to offers guidance to the CoM to achieve the above

### **3. Review Approach**

The review approach was to conduct a situational analysis and operating environment study to gain knowledge and form views; and to also attain an understanding of the present social and community benefits that the MLFC enables/facilitates/assists (including its licensees), within the context of its operating functions and commercial expectations.

Extensive research was undertaken, particularly through the perusal of headline documents including the *Community Land Management Plan 3- Major Community Facilities*, *Community Plan Towards 2040*, Council's *Sports and Community Facility Master Plans*; *Marion Outdoor Swimming Centre Review* (April 2015 report), *CoM Open Space and Recreation Strategy 2006-2016*, *Marion Council Development Plan* (consolidated, March 2015), *SAG's South Australia's Strategic Plan 2015*, *LGA Strategic Plan 2011-2015*, *YMCA's MLFC Quality Assurance and Business Plan for 2015/2016*, *Gymnastics SA Strategic Plan 2015-2017*, *Gymnastics SA Sport Overview 2015*, *Gymnastics SA (commissioned) report into Supply, Demand and Provision for Gymnastics Facilities in South Australia April 2015*, *Fitness Australia's Workforce Report*, *Let's get Physical-* report for Fitness Australia, *State of the (Fitness) Industry 2012*, Deloitte Access Economics for Fitness Australia; *The Future of Fitness: A White Paper* Dec 2009 commissioned for Les Mills International Ltd, various Australian Bureau of Statistics reports; and a range of supplied reports, policies and documents from CoM, YMCA and other.

Through a series of discussions and oral information gathering sessions, also attended by CoM Acting Director, Abby Dickson, the review included engagement with key stakeholders within the Centre including the YMCA, Gymnastics SA, and Koorana Gymnastics Club Inc.

Additional consultation was carried out with the CEO of the peak body for fitness and gym operators, Fitness Australia.

Subsequent to the initial phase of the review re understanding the present state of the MLFC through a situational analysis, including of all key stakeholders, and a study of the operating environment and industry; together with stakeholder discussions and subject matter research, I then formed certain assessments on which to prepare the MLFC Future Options report, for Council's consideration.

#### **4. Review context and guiding documents**

The objective of the review is to develop a report which identifies feasible, high level future options for the MLFC which consider the community and stakeholder impact, financial impact, and overall alignment with the overarching Council's Community Plan and Asset Management Framework.

Specific to the MLFC, currently no facility management plan, asset management plan, or renewal plan has been developed to assist strategic asset planning for the facility. This should be undertaken as a priority.

##### **4.1 Strategic Context**

The City of Marion provides access to a diverse range of sport and recreation facilities that collectively aim to support an active, healthy and connected community.

These facilities include:

- Sports grounds with ovals, playing fields and outdoor courts
- Outdoor swimming/leisure pools; and sports courts that cater for tennis and netball (some of which are courts linked to sports grounds)
- Indoor swimming, sports and recreational/leisure facilities

More broadly CoM supports an active, healthy and connected community through:

- Walking and cycling infrastructure
- Reserves an open space
- Community & cultural facilities & programs

With the large number of sport and recreation facilities spread across the City there is need to strategically plan for improvements and develop directions that will ensure facilities can appropriately respond to community needs in the future.

The Marion Leisure and Fitness Centre is a significant community asset which Council has over a 37 year period, made substantial investment in; and continues to, through recurrent operational subsidies and covering on-going maintenance costs. The continuing purpose of the MLFC and of COM's ongoing support must be strategically connected to meeting particular aspirational outcomes. These outcomes are interconnected to the health and well-being of the community, through the provision of fitness, health/well-being and recreational and sporting programs.

In terms of asset management this must be done within acceptable risk parameters and within a financial setting that seeks to meet cost of operations from revenue generated.

Through this strategic context, this review further considers the different parts and outputs off the MLFC, in regard to:

- that delivered through the fitness/gym & health operations, presently managed by way of a management agreement with the YMCA;
- cogency and contributing factor of Gymnastics SA;
- cogency and contributing factor of Koorana Gymnastics Club

- the stadium and court operations

### **The Community Plan - Towards 2040**

The Community Plan- Towards 2040 is the guiding document in regards to providing a line of sight to strategic considerations and in the development of business and operational plans.

Using this as a reference, it is considered that having a community facility such as the MLFC reflects Council's strategic policy, Council's vision and the shared values and aspirations represented by the *Liveable* and *Engaged* theme of the Community Plan.

An important reference document is Council's Asset Management Policy, incorporating CoM's Strategic Asset Management Framework.

### **Strategic Asset Management Framework: Strategic Asset Management Matrix: MLFC Priority 2 – Important**

The Local Government Act 1999 makes explicit that councils have a role to play in planning, protecting, managing, developing, promoting, improving, restoring and enhancing their local communities. Asset management is a critical element in undertaking these functions.

The LG Act requires that Councils develop and adopt strategic management plans for the management of its area including the extent to which any infrastructure will need to be maintained, replaced or developed by the council.

Contained within Council's Asset Management Policy, the City of Marion's Strategic Management Framework provides the overarching framework that supports Council in setting strategic direction and making determinations relating to priorities and resource allocation. There are a number of key principles which define Council's approach to asset management.

Asset management decisions are based on Council's Strategic Asset Management Framework which comprises an assessment of asset criticality, based on priority 1-critical, priority 2-important and priority 3-aspirational/discretionary; and asset action based on asset maintenance before renewal; and renewal before new/upgrade (where it is cost effective to do so).

In order for assets to be managed in a way that ensures efficient, effective and sustainable service delivery all assets are assessed using a decision-making matrix based on asset criticality and priority for action.

#### **1. Strategic Asset Criticality**

All of City of Marion assets are categorised to determine their criticality, as either P1, critical, P2, important or P3, discretionary/aspirational.

I am advised that Council undertook an exercise last year to priority categorise all asset 'classes'. Through that review, it was determined to categorise the class of sports facilities, clubrooms, pool, community buildings etc as Priority 2- Important. However, the review hasn't yet progressed further in terms of classifying all assets individually, although it was recognised that there was likely to be some individual assets, within each priority, that should be reclassified on a case by case basis.

Priority 2 assets are defined as:

- Those assets that contribute significantly to the role and function of council under the LG Act.
- Those assets that are important in the delivery of identified services, with major/moderate consequence to community, or financial, business or service levels in event of failure, repurposing or disposal.

## 2. Asset Management Actions

All actions associated with asset management are categorised to determine their priority based on their priority definition. Asset management will follow an approach based on maintenance before renewal and renewal before new/upgrade (where it is cost effective to do so).

Strategic decisions on asset management are made based on consideration of asset criticality and priority for action. As a P2, the decision to maintain and or renew the MLFC facility is presently considered “operational/business as usual” and:-

- Those decisions are automatically planned for and funded as part of the Annual Business Planning and Budgeting process.
- Those decisions are automatically reflected in the Asset Management Plans and Long Term Financial Plan.
- Decisions made on renewal actions will consider all options and opportunities for more efficient and effective means of service delivery prior to investment.

Additionally, in *The City Of Marion Sports Facilities Framework* (Suter Planners, 2011), maintaining and further enhancing the Marion Leisure & Fitness Centre to provide a City wide focus for community sport and leisure (with an emphasis on less formal community sport and personal fitness, rather than high level organised sport), is proposed. The report states that *“the Marion Leisure and Fitness Centre is beginning to age and considers that there is potential for some improvement to the facility’s design and quality. The location and profile of this facility justify maintaining a high quality facility to support the district”*.

### Community Land Management Plan 3- Major Community Facilities

The ownership of all land utilised by Council for the provision of Major Community Facilities is specified in Community Land Management Plan 3 – Major Community Facilities Schedule 1.

The land selected and included in this category is a result of a review of all land contained in Council’s Community Land Register. Council currently retains the land listed to meet the service delivery standards supported by Council’s corporate and community plans

The included land should be assessed on a regular (annual?) basis against the Community Land Classification criteria as defined by the Local Government Act 1999 to ascertain if there are higher or more appropriate uses available that may necessitate the revocation of the area’s Community Land Classification.

The land, as defined in Schedule 1 may be subject to Leases and Licences where the agreement/s support/s the community purpose of the land, or adds value to the land through maintenance of built assets, or makes a commercial return to Council to support other community activities, or to enhance the provision of services to a community group, or for other reasons at the discretion of Council.

### Objectives for management of the land

The City of Marion has an overall vision of *Community Wellbeing*. The first principle listed in this section is for Council to *align community facilities to meet community needs* - acknowledging that facilities are leased or licensed by Committees made up of local Community Members who are in touch with the needs of the local community.

The Community Land Management Plan 3- Major Community Facilities states that CoM's objectives for the management of land include:

- To provide for the welfare, well-being and interests of individuals and groups within the district.
- To give due weight, in all plans, policies and activities, to regional, state and national objectives and strategies concerning the economic, social, physical and environmental development and management of facilities and the services therein supplied.

Facilities included in this plan will be given priority in the allocation of property maintenance funds allocated to land utilised for Community Services and to funds and resources allocated to Community Facilities generally where sufficient community support and usage of the facilities can be demonstrated to Council's satisfaction.

Allocation of funds and resources is also subject to having no material impact on the safety, usability or functionality of other land categories or Community Facilities included in other plans. Council gives no guarantee that the facilities will be maintained to a standard suitable for all usage.

Council, subject to an agreed sustainable financial case, ongoing business plan and appropriate control documents being in place, may also support applications for grant money and subject to consideration during its budgetary process, may provide financial assistance for any agreed improvement or ongoing project associated with the facilities.

### Performance targets include

To ensure all built assets or improvements are safe.

To ensure all built assets or improvements are utilised to an appropriate level.

To contribute to the achievement of Sustainable outcomes in the management of land through:

- Considering the integration of social / cultural, economic and environmental parameters,
- Considering a long term vision for the future management of land, and
- Ensuring consultation with the community in the management of land and where possible encourage the participation of the community in dealing with the land included herein.

### Performance measures include

Regular inspection and maintenance of improvements.

Regular review of asset utilisation.

Agreements to have considered options for progressing sustainable outcomes for the management of land in this category including:

- demonstration of integrated planning for social / cultural, economic and environmental outcomes, and



- demonstration of consultation process appropriate to the agreement.

### **Disposal criteria**

The following criteria are among those identified as that to be utilised to assess whether Council should retain or dispose of a land asset including owned and leasehold interests:

- Annual cost of maintenance
- Immediate location to a similar facility
- Duplication of the facility
- Benefit / Risk Analysis
- Current use / utilisation
- Current state of property
- Alternate future use
- Current market value
- Relationship to service requirements and relevant strategic drivers
- Level of community ownership
- Potential future use to adjacent properties
- Alternate future community use

### **South Australia Strategic Plan 2011**

Reference was also made to the South Australia Strategic Plan 2011 which, it is considered that strategically, the purpose of the MLFC also aligns with that Plan's related vision and goals, in regard to our communities in that:

- Vision: We are active in looking after our health
- Goal: We make healthy choices in how we live
- Goal: We educate young people about healthy living
- Goal: We are physically active

### **The South Australian Public Health Plan – A Better Place to Live**

Further alignment with public institutions, per SA's Public Health Plan which lists as its two top priorities

Priority Area 1: Stronger and Healthier Communities and Neighbourhoods for all generations

Priority Area 2: Increasing Opportunities for Healthy Living, Eating and Being Active

### **City of Marion Population Data**

At the time of the 2011 census, the City of Marion had a population of 82,988. In terms of future population growth the area is projected to grow to 99,396 by 2036 which would represent a growth of 19.8% from the 2011 population at a rate of .79%pa.

The City of Marion has a higher percentage of females compared to males within the population with 51.8% and 48.2% respectively. In terms of age structure, the service age groups divide the population into age categories that reflect typical life-stages. The table below displays that the City of Marion has a lower percentage of under 24's, parents and homebuilders, empty nesters and retirees than Greater Adelaide, however, has a higher rate of young workforce, older workers and pre-retirees and seniors.

**Table 3: Age Structure – service age groups**

Service age group (years)	Number	Percentage	Greater Adelaide %
Babies and pre-schoolers (0-4)	4,748	5.7	6.0
Primary schoolers (5-11)	6,066	7.3	8.1
Secondary schoolers (12-17)	5,649	6.8	7.5
Tertiary education and independence (18 - 24)	8,088	9.7	9.8
Young workforce (25 -34)	11,528	13.9	13.4
Parents and homebuilders (35-49)	16,965	20.4	20.9
Older workers and pre-retirees (50-59)	11,392	13.7	13.1
Empty nesters and retirees (60-69)	8,134	9.8	10.2
Seniors (70-84)	7,981	9.6	8.7
Elderly aged (85 and over)	2,437	2.9	2.4

## 5. MLFC- background and current state

The Marion Leisure and Fitness Centre, a Major Community Facility as specified in the Community Management Plan 3, is considered to be an important, long-term community strategic asset which continues to provide, through its purpose, important community outcomes focused on positively affecting the physical and psychological well-being of, primarily, City of Marion residents.

The centre comprises two sports stadiums, a fitness centre, a crèche and rooms leased by Gymnastics SA and the Koorana Gymnastics Club Inc.

The MLFC built in 1978, then known as the Marion Recreation Centre, was a significant commitment for the City of Marion, with the purchase of land and initial capital investment undertaking at that time of approximately \$570,000. A subsequent extension to the main building and carpark in 1981/82 and the construction of the separate, purpose design and built for gymnasia activities, “Koorana” building in 1991/92, brought Council’s cash investment to around \$3.175m.

The most recent valuation (Maloney Field Services), in 2014, estimated the capital value at \$7,558,020 (\$5.7m for the “main” MLFC building and \$1.85m for the Koorana building). Replacement cost is estimated at a factor of two.

The MLFC is located on the high-traffic Oaklands Road and is in close proximity (1km radius) to a number of Council owned community facilities/assets including: Oaklands Wetland Reserve, Marion Outdoor Swimming Centre, Hendrie Street Reserve, Park Holme Library, Oaklands Reserve and Recreation Plaza; and the planned Inclusive Play-space at Hendrie Reserve.

The MLFC has two long-term, key licensee-tenants, Gymnastics SA and Koorana Gymnastics Club Inc, who until the exit of CASA Leisure, utilised their particular areas of the Centre, on a sub lessee basis. Koorana Gymnastics have been a tenant since the Centre’s start up in 1978 and Gymnastics SA have been there since 1982. Although the relevant records have not been able to be sourced, Gymnastics SA advised that they had put in a cash contribution of \$20,000 and \$210,000 by way of a government grant to the Centre’s extension- to accommodate Gymnastics SA - in 1982. Also advised by Koorana Gymnastics that they had committed \$25,000 cash and \$250,000 by way of a loan with Council to the new gymnastics building in 1992 (also advised that the loan was extinguished circa 1998/9 and that a sub-lease arrangement, with yearly rent was put in place in lieu of same).

Central to the MLFC has been the fitness centre facilities. Until October 2014, the MLFC was leased by commercial recreational centre operators, CASA Leisure, on a PA rent and share of profit (if above the agreed quantum) basis.

**MLFC Gym, Fitness & Health Club Ops, (inc, crèche, café, (spa until recently), Stadium/courts, attendant services, etc**

- Note key metrics from MLFC pre SAALC; and 3 years since SAALC (eg, 27% drop in total centre attendance; a 58% drop in membership from a high of 1853 in 2007, to present day of 784; and membership income dropping from \$1.456m in 2011, to projected of \$459,000 for 2015/16- a reduction in income of 68%.
- Facility in general is dated and in need of upgrading
- The aesthetics and presentation of the facilities do not compare well with the recently refurbished, or relatively new centres such as SAALC and the Parks Community Centre and the soon to be completely redeveloped, Campbelltown Leisure Centre, this is primarily due to their age.
- A condition audit assessment of the MLFC was last undertaken (by Coffey Environments PL) in October 2007, assessing the condition of the buildings (main building housing the fitness, gym& health club; and the stadium courts – and the separate “Koorana Building”). Findings were:
  - (i) Both buildings were rated:- “Good”, indicating that *“The material is in sound condition with none to very minor damage or deterioration”*
  - (ii) Both buildings were estimated to have a useful life of greater than 30 years
  - (iii) Both buildings would require a *“large amount of minor maintenance, and a small amount of capital maintenance”* A number of items were identified that required immediate attention; and a number of items that would require maintenance in the proceeding next 10 years, through to 2017, extending the useful life of the items. Maintenance costs over the proceeding 10 years through to 2017 were estimated by Coffey at \$51,340 for the Koorana building (actual was \$768 for 8 years through to 2015); and \$253,400 aggregate for 10 year period through to 2017 (actual for 8 years through to 2015 was \$115,544]. Combined maintenance total, 2008 to 2015 was \$116,312 at a PA average of \$14,539.

**Gymnastics SA**

Gymnastics SA (GSA) has based its state headquarters at the MLFC since 1982 and is the peak body for SA’s 66 clubs and approximately 16,000 members.

It embraces eight Gymsports, which as well as providing for elite athletes, is positioned to promote a healthy lifestyle and active participation for athletes of varying levels of ability.

In an overview of the sport and its place at the MLFC, GSA provides an historical context to its role and contribution to the 1982 MLFC extensions for the purpose-built gymnastics area and the two indoor multi-purpose courts (Courts 1 and 2). The overview document makes a statement that the SA Gymnastics Association, by way of cash, and through a government grant to the Gymnastics Association,

contributed circa \$230,000 to the extension cost and it (the Management Committee) considers that it has some “ownership” and stake-holding in the facility.

GSA currently pays an annual rent to Council of \$26,400 with CPI applied annually.

As a purpose designed building for gymnastics, the configuration, especially in its height (8metres) is something essential to its purpose.

GSA considers the MLFC to be its “spiritual home” and believes there would be very few feasible and cost-viable options for Gymnastics SA to consider, if the centre were not available in the future. Given, particularly the height requirements for certain elements (rhythmic) of the elite programs, some of the elite and high-performance programs would be restricted to venues such as the AEC, Adelaide Convention Centre, perhaps the netball or basketball stadia; and one of the pavilions at the Wayville Showgrounds.

### **Koorana Gymnastics**

The Koorana Gymnastics Club has been based at the MLFC since its creation as the Marion Recreation Centre in 1978.

As conveyed by Koorana President, Mr Barry Barnes, the club was the first major occupant of the centre and financially contributed \$20,000 to its construction.

Koorana is the 2nd or 3rd biggest club in South Australia and has 400 members in its programs, mostly aged between 5 and 16, with a waiting list of 250 children. Koorana has 95 girls in its development squad.

The club is supported by 60 volunteers, some who dedicate up to 30 hours per week to their cause.

Koorana consider their centre to be the best club set up in Australia. It is proud of its facility as a purpose design and built venue; and that it financially contributed to the cost of its construction in 1991/2 by way of a \$250,000 loan (borrowings from Council). This was partially repaid over the 7 years through to 1998, when the loan was extinguished by Council and Koorana became a sub lessee tenant, with annual rent of \$40,000 pa (which only very recently, increased to \$41,000 with CPI now being applied annually).

## **6. MLFC Future Options- key assessment and guiding information, considerations and inputs**

### **6.1 Centre performance with current service model**

**Historical performance:** CASA PL managed the Marion Leisure and Fitness Centre after taking over the operations from RANS, which went in to receivership, in 2003. In 2004, CASA entered into a 5 + 5 year commercial lease with CoM for management of the centre.

For the first 8 years of the CASA lease, it reported audited profits of up to \$93,000, with profits in excess of \$30,000 in any year of operations, shared with CoM on a pre-agreed formula.

In 2012/2013 CASA reported its first operating loss, of \$52,000. Subsequent FY 2014 was a \$127,000 loss.

**Current performance:** The YMCA successfully transitioned from the former operator and, it is considered is providing, a high level of quality service and programs to MLFC members and in the stadium

operations. YMCA is performing well to targets, budgets and required outcomes. Their staff are greatly experienced, knowledgeable and professional; and the organisation's systems are first rate. Their monthly reporting is always on time, informative and easy to diagnose.

Central to the MLFC has been the fitness centre facilities. Until October 2014, the MLFC was leased by commercial recreational centre operators, on a PA rent (\$30,000, 2004-2014) and a share of profit generated (if above the agreed quantum) basis; plus council rates, and the cost of building insurance, water and ESL.

Under the current service model, the fitness and gymnasium and health club facilities are now operated, under a centre management agreement with the YMCA, at a fee of 10% (forecast at \$113,265 if full year of ops).

Stadium usage is a significant driver both financially and in attendances for the centre, with both structured court sports and event days contributing to increased usage of the facility as a whole. Approximately 40% of the forecast centre income for 2015/2016 will be generated by court hire and usage which is delivered at significantly less costs proportionally to that of the fitness/gym/health club operations, due to the much higher level of staffing requirements.

In endeavouring to compare 12 months of operations vis a vis the former leasing arrangement with CASA, the key points are:

- (i) Council now wears all the risk in regard to any budget shortfall – but receives all of the surplus, should that occur in any operating year.
- (ii) On the basis that the YMCA's projected 2015/2016 operating budget were to come in on target (notwithstanding the current agreement is only through to end of Feb 2016), and presently, the YMCA have shown to be very good at their budget forecasting, the net economic difference to Council would be around negative \$50,000 (being loss of rates and \$30k rent opp). Note that this does include the amortization of the Gym and fitness equipment as part of the settlement.
- (iii) Note, that, if the gym & fitness ops were to remain as is, new equipment will be required in the very near future, to which non-obligatory quotes have been sourced by the YMCA. The capital cost of the equipment is estimated at \$425,000 and the approximate \$35,000 additional recurrent cost to the budget (which, all things being equal re an otherwise breakeven budget) would increase the differential to approximately \$85,000 pa.

## 6.2 Current MLFC membership profile and usage data

Member usage –

Centre health club memberships have recovered from the post CASA handover and are currently at 784. Member, casual and group session visitations are strong, with the centre now averaging 8,000 -8,500 pax per month and sports programs (stadium courts – futsal, netball, basketball etc) bringing in an additional 10,000 recreational players in August and September.

However, membership numbers are significantly down historically (using CASA's reported membership numbers), from a high of 1853 in 2007, 1692 in 2010 and decreasing year on year since.

### Membership profile –

- Postcode analysis shows that 60% of members are CoM residents.
- As at May 2015, 60% of members were female and 40% male (source: YMCA 2015/16 QA and BP)
- Members by age (only calculated on members who provided age details):
  - ~ 20 – 34: 25%
  - ~ 35 – 49: 28%
  - ~ 50+ : 41%

Breakdown by 5 year cells is listed in the YMCA 2015/16 QA and BP document

- 55% of members paid by direct debit; 45% were up front term based
- 110 members (for 145 persons) have membership contracts beyond end of February 2016, with expiries being 39 memberships (47 persons) in March, 33M (44P) in April, 22M (33P) in May and 16M (21P) in June. (Note the YMCA have the funds to refund memberships beyond 29 February 2016)

### 6.3 High level market need analysis for health & fitness services within the City of Marion / catchment locale

I have included substantive excerpts in 6.4 below, of an overview of the fitness industry in Australia from researching of various authoritative publications and sources; and discussions with the CEO of Fitness Australia, which have helped shaped my commentary, per below with regard to health and fitness services with CoM and catchment locale.

In addressing the question of whether there is a market need for health and fitness services within the CoM/catchment locale, some fundamental evaluations and assessments need to be made:

- What and who is its direct competition?
- Is the current model economically sustainable in relation to the level of subsidies and discounts Council is prepared to contribute?
- Is that contribution likely to grow, or diminish with a change of management model?
- Are those subsidies an inefficient and imprudent investment, vis a vis other community priorities?
- Is the continuing purpose demonstrable, or are the prevailing services easily available elsewhere, locally, at a reasonably similar cost?
- Is Council deriving the best possible strategic return for its community from the significant capital asset?
- Can cost reduction measures save the business? Conversely, what are the opportunities to grow and evolve the business and generate increased revenues?
- How does this accord with CoM vision of Community Wellbeing and aspirations within the Community Plan?
- Could it be substituted with something different and equal or better in regard to meeting its policy outcomes and is it strategically connected to meeting aspirational outcomes interconnected to the health and well-being of the community, through alternative provision of fitness, health/well-being and recreational programs.

In terms of asset management and the on-going economics of the MLFC operations, is it desired that this must be done within acceptable risk parameters and within a financial setting that seeks to meet the cost of all operations from revenue generated?

The following selection of comments, some of which go to the above, are sourced from the YMCA's Quality Assurance and Business Plan 2015/16

- *The MLFC fitness, gym and health club operations is an historical business model, which is not [economically] sustainable.*
- *Of the membership base, 80% are on significant discounted rates, affecting ability to drive revenues through core business.*
- *A review of competitor pricing in the health club area has been undertaken, with the results of the review indicating that the pricing position for the MLFC is highly competitive in relation to the local market (therefore, little elasticity).*
- *It has significant competition in the health club, with 12 other health clubs within a 5km radius.*
- *The full service model of a staffed health club is a significant factor in member retention. (This service model is in effect being subsidised by CoM).*
- *Poor disability access with the gym located on the second floor.*

Growth in the fitness/gym/health club industry, while more steady over recent years, has been explosive since 2000 evidenced through an increase in the number of registered professional fitness employed in the Fitness industry by 360% (source: Job Outlook 2011 based on ABS Labour Force Survey, Deewer Trend, 2011).

I would characterise the gym and health club market, locally and through-out Greater Adelaide as saturated, now dominated by privately owned and franchise operators. Fitness Australia membership data (2011) showed that about 30% of businesses were privately owned, nearly 20% were public or not for profit (NFP), of which the YMCA is a leading operator, and 45% were either company owned or operated as a franchise. Of the public and NFP, Fitness Australia data reports that approximately 5% are government (NB not defined into local, state, cwth).

Type of health club operators and their brand/franchise are not immune from the challenges of economic sustainability, especially where the general region/location have greater economic challenges or might have a lower socio economic rating (eg, by household salary) than other markets. In April 2015, Genesis Fitness Club at Noarlunga Centre was closed down by the landlord due to rents owing of \$144,000.

In summarising my view, I think that Council needs to decide at what level, if any, it is prepared to commit on-going yearly subsidies, which with lost revenue opportunities, could well increase to \$85,000+ within the next two years (with new equipment, especially cardio related, vital).

Options would be to consider changing the current management and or service delivery model by:

- (i) going out to an EOI or tender and source a new NFP operator (or a franchise/chain operator.
- (ii) changing the structure and focus of the delivery model to low/self-serve operation – such as a 24/7 model (YMCA considers this model would not be sustainable for the MLFC).
- (iii) being much more innovative and visionary by taking a community leadership role in redesigning the physical and psychological health, well-being, exercise service delivery model to fit a specific



segment of the community, rather than the prevailing model which (at a premium) looks to cater for every age group and demo, 15 -75 and above.

- (iv) consider options for the management of the Marion Outdoor Pool to be included in the sourcing of the new Operator to expand the business model and revenue streams, and achieve a precinct approach.

Look to forming collaborations and formal partnerships with the state and national governments; and key stakeholders in the health sector and aspire to greater community outcomes by changing the focus of the product and programs to be much more health, well-being oriented, with low impact, gentle exercise programs, fully interconnected at the centre, with the allied health industry, to the 50+ market. Note: I have addressed this in market trends in the fitness industry.

#### 6.4 Likely future directions in health, fitness and the recreational sector

The Australian Fitness Industry **Report 2012** (Deloitte Access Economics) *The State of the Industry Report 2012* provides detailed and consolidated information illustrating the current state of the fitness industry.

Growth in the industry, while more steady over recent years, has been explosive since 2000 in which thorough the last ABS data available, the increase in the number of registered professional fitness employed in the Fitness industry increased by 360% (source: Job Outlook 2011 based on ABS Labour Force Survey, Deewer Trend, 2011).

The fitness industry is a dynamic and evolving industry. Fitness activities are defined by the Australian Bureau of Statistics (ABS) as participation in 'aerobics/fitness/gym activities', 'Pilates', 'weight training' and 'yoga' categories.

A core research theme (ref. *Future of Fitness – White Paper Dec 2009*) is that, for most people, exercise is a means to other goals – health, longevity, beauty, spirituality and sociability chief among them.

The *State of the Industry Report 2012* provides a snapshot of the industry and identifies the trends within and their impact upon the fitness industry. Trend information in relation to how the industry is developing, what it will potentially look like in the future and its financial sustainability is vital for successful future planning for the industry.

In comparison to other sectors, the fitness industry on the whole, has fared better and continues to grow despite the backdrop of uncertainty that has affected the broader economy. This can be attributed to a myriad of factors including cultural and demographic changes associated with the increasing importance accorded to fitness, the recognition that it delivers personal health benefits and industry innovation in tailoring programs to meet the needs of consumers.

Around 3.3 million Australians were estimated to use the services of an exercise professional in 2011, with continuing growth expected for a variety of fitness, health, recreational and well-being related reasons.

A wide range of businesses make up the fitness industry, from sole traders to large, multinational fitness centres. The Deloitte Report estimates that there were an estimated 2,557 business sites (approximately 91% metropolitan based) in 2012 delivering fitness and related programs, which is characterised by a large number of private and small to medium sized businesses.



## Trends & Key Findings

### Participation in physical activity

According to source document: Participation in Sport and Physical Recreation, Australia, 2011-12 Report, Australian Government Australian Sports Commission (Table 5: Top 10 physical activities) gym and fitness participation is only second to walking as the most prevalent form of Australian's undertaking physical exercise (p35 of TR) and are unstructured activities that can be completed at a time convenient to the individual.

Over 4 million Australians participate in fitness industry activities. Users are typically female (42%) and younger (25-34 years). However, the biggest increase in users was from the 45-54 year age group. Looking forward, participation will continue to increase exponentially with total demand increasing to 7.15 million users by 2020.

Consumer preferences over the decade have continued to change and this has had an impact (negative) on revenue distribution, as well as the proliferation of operators.

### Change in consumer focus on improving health and quality of life:

*The Australian Fitness Industry Report 2012* (Deloitte) states that in recent years a change in consumer focus on improving health and quality of life has become increasingly apparent. This, together with the interest of governments (and private health insure orgs, et al) in preventative health, has meant that the fitness industry has had to evolve to meet a much greater array of fitness needs within the community. Business models range from small person training studios to large multi-national chains. Equally, service offerings range from the traditional fitness classes, to more niche orientated offerings to meet the needs of sub-groups such as older people, children and those with more complex health needs as well as those interested in general health and lifestyle improvements.

The Marion Outdoor Swimming Centre Report 2015 (Tredwell Management Services), utilised three separate sets of performance indicators developed by \*CERM PI for sports and leisure centre management in relation to Customer trends and preferences, stated:

- There is (an increasingly) social trend towards healthy living (C1 7, p12)
- Growth of baby boomer market; expected 48% rise in 65-69 year olds in the Marion area by 2021 (C1 9, p12)
- Sports and recreation industry is expected to grow by 1.8% per year (C1 2, p11)

It stated that **Factors Impacting on Sport and Recreational Facilities Programs and Services** include (p 34):

- Increased demand for programmed hotter water areas suitable for therapy and older adult exercises.
- Development of multi-use facilities to attract a broader range of users.
- Introduction of targeted marketing programs has reduced participation constraints.
- Increased demand for longer opening hours and increased activity options at the one site.
- Demand for high standard, high quality facilities and services to meet their recreation and leisure needs.
- Health and fitness activities are becoming a larger part of people's activity choices.

- Recreational and leisure facilities have been designed to meet the needs of people with special recreation needs to increase accessibility to and within such facilities. Added to this is the growing array of programs and activities offered to people of all different abilities, physical condition and skill levels.
- facility market research indicates future complexes must equally cater for three distinct aquatic user markets being Recreation and Leisure Market; Competitive/Training/Fitness Market; and Health, Education and Therapy Market.
- Development of a range of complementary businesses in conjunction with aquatic leisure facilities, such as Wellness Centres; Sports Medicine; Health and Therapeutic Services; and Health and Beauty Services.

**\*CERM Performance Indicators\*** is an applied research project of the University of South Australia, involving a research team with the [UniSA Business School](#) and provides stringently tested secure and industry specific methods of evaluation for the leisure industry. Research focussing on operational indicators and customers' perceptions of service quality for local government sports and leisure centres has been the core focus of CERM PI since the early 1990s.

### **Innovation trends**

Remaining dynamic, competitive and responsive to new fitness trends remains a challenge for the fitness industry, with the industry through the development of programs and evolving business models looking to meet changing consumer preferences. Pondering strategies for improving health status and cutting costs, as well as delivering measurable outcomes that better fitness delivers by organised providers, together with better demonstrable accountability are important outcomes for the community – and those who financially contribute by way of subsidised facilities or some form of financial subsidy/discount to the provider's/centre's operating costs.

Through the authoritative report on the global future of the Fitness Industry (*Future of Fitness – White Paper Dec 2009* – commissioned from The Nielsen Company by Les Mills International and Better by Design, brings together data, expert opinion and informed speculation to form a view of the future of the global fitness industry and is used as an authoritative reference document in Fitness Australia's State of the Industry 2012 Report) we are informed that the industry is reaching out to the (ageing) 'baby-boomer' population with, for instance, a range of 'senior workout programs' and new programming choices offered by the large 24 hour fitness chains such as Latin dancing, walking and yoga, to low-impact cardio, individual and group-exercise programs.

The White Paper states that the formal linkages between health services and the fitness industry are emerging; and in the UK, for example, local programs include advice and management of overweight and obesity; regular sessions providing physical activity, dietary advice and psychological support; and tailored programs for morbidly obese people. It is reported in the White Paper that in the UK, more fitness and health services are being co-located, bringing together diverse services like health centres, family planning and midwifery clinics, gyms, swimming pools and sports studios.

I also refer to the Draft Tredwell Management Services Marion Outdoor Swimming Centre Report 2015, which has provided me with relevant (to this review) research data and report findings, relevant to this review and report. Some key points:

#### **❖ Health + Fitness Activity Areas**

Industry trends indicate that users of aquatic facilities are also significant users of health and fitness facilities. Location of each of these activity components at the one site improves financial viability.

Health and fitness has the capacity to record much higher expense recovery returns than aquatic centres. Traditionally these returns can also attract commercial investors and operators to health and fitness facilities. Locating these facilities at aquatic centres increases the potential of cross-selling and spin-off use. It also improves the membership/program user and casual user ratio.

#### ❖ **Ancillary Services +Activity Areas**

In recent years, in addition to health and fitness areas, there has been a trend to develop a range of complementary businesses in conjunction with aquatic leisure facilities.

These include:

- ❖ **Wellness Centres:** There is an emerging trend of adding in an area for specialist wellness activities, services and merchandising. The key services found at successful wellness centres include massage, beauty therapy treatments, gentle exercise classes and relaxation and time out activities.

Inclusion of such facilities offers a broader range of activities to a larger age profile of people. The massage and beauty therapy are high yield sales activities and also can have high linked merchandising product sales.

It is essential in developing such areas that they are located with good views, away from general public noise and viewing areas and have very good finishes and fittings. Provision should be made for a lounge for relaxation after treatment or classes.

- ❖ **Sports Medicine:** Development of consulting rooms, with patient access to health and fitness and pools are revenue generators.
- ❖ **Health and Therapeutic Services:** Health consultancies, weight loss and therapeutic services linking in worker and accident rehabilitation patients to use the range of facilities with centre memberships paid by relevant authorities.

#### **Industry subsectors & offerings**

Industry offerings are diverse, from traditional exercise classes and gym type activities to newer niche areas such as boot camps, senior's classes, and access to allied health services.

Fitness businesses, in response to the increasing interest by the community are embracing and promoting approaches which emphasise overall health and wellbeing.

A testament to this approach is evidenced by the increasing penetration of yoga, tai chi and meditation classes into the core business areas of the fitness industry. Options such as massage, acupuncture and allied health services have also been integrated into business models to further expand market reach. Those consumers who just want to work out and get physically fit remain a central part of service offerings. Circuit training specific gyms have also boomed in the past few years with the franchises Curves and Contours, among others, promoting a simple 30 minute work out three times a week to busy women.

The fitness industry has also claimed a central role both in the national preventative health agenda as well as in combating the complications of chronic diseases. Specific programs to assist in managing these conditions have emerged recently including *Lift for Life*, *BEAT IT*, and *Heartmoves*.

Fitness Australia states that the industry is also taking steps to build and strengthen the networks and referral pathways to and from allied health professionals. Currently, approximately, 8% of clients are being referred to medical or allied health services and slightly more (11%) are referrals from such services.

While it could presently be seen as a niche offering and not yet fully leveraged in a fully structured and marketed manner, the opportunity exists for a key stakeholder within the community to consider offering a service and product holistic model based more on the health and well-being outcomes for the 50/55+ demographic.

In my information gathering, I interviewed the CEO of Fitness Australia as to existing service models, trends and innovation in the fitness industry and she:

- Considers that the traditional 18-35YO (male skewed) is well looked after in regards to gym and fitness facilities and product offerings; to which there has been significant competition growth in this sector over the last 10 – 15 years
- Considers that the 30/35 – 45/50 YO demographic is well suited to the traditional facilities but there are also a lot of people in this group that don't go to gyms for their fitness and physical exercise. Cross-fit and PG Studios are also growing within this segment.
- Considers that there is significant opportunity and community need with the 50/55+ demographic to evolve the fitness/gym model and innovate into a wholly (rather than as an add-on product or service as presently available at some of the newer, larger fitness centres) focused holistic, health and well-being environment, providing low impact, “gentle”, low-impact exercise options, preferably including hydro therapy options, with access to allied health services and providers (visiting or located in situ). The Fitness Australia CEO (and supported with various research papers and surveys) believes that this is the future model that the community needs for the 50/55+ demographic (male and female) but that this type of model has not really properly manifested yet.

## Health benefits

One of the biggest opportunities currently facing the fitness industry is the potential for it to link in with the general and allied health sector. Traditionally, fitness has been about servicing the ‘well’, while the ‘unwell’ have been left for health sector professionals such as general practitioners, physiotherapists and dietitians. As the health of Australians becomes more complex – particularly as the incidence of physical inactivity related and obesity related disease increases and the population ages – the need for the fitness workforce to be able to contribute to the management of health issues is growing.

Predictions for the future of the fitness industry will continue to be informed by trends relating to factors such as what consumers want and expect, the impact of technology on customer service offerings, the capacity to tap into the retiring ‘baby boomer’ age group and other sub-groups within the population and, as good corporate citizens, the capacity of fitness businesses – and stakeholders - to respond to community needs, especially in areas of disadvantage/lower socio economic regions, where significant population health issues exist.

The fitness industry, should look to work with all levels of government and the broader health sector to partner in meeting preventative health objectives. And there's a linkage too for employers, who look to incentivise fitness and health outcomes for their employees.

### **Gender**

Men and women report similar participation rates in sport and recreation (65% and 63% respectively) when both organised (e.g. gyms, football clubs) and non-organised sport and recreation activities (e.g. walking, beach swimming) are considered (ABS 2010a). In 2009-10, around a quarter of the population (26%) reported participating in organised sport and physical recreation while double that percentage (52%) took part in non-organised activity. When focusing on the utilisation of organised fitness services such as those represented by Fitness Australia, 63% of users are female (Sweeney Research 2009). In fact, women aged 25-44 are the key client base for gyms whereas men 45 years and over are least likely to attend a fitness facility. Overall 14.9% of males and 21.7% of females participate in organised fitness activities.

### **Industry growth**

There has been growth and climbing levels of participation in fitness activities within the community. However recently there has been a slight downward trend probably associated with the economy and consequently a reduction in the discretionary spend of consumers.

### **Economic outlook**

Trends in relation to demand for fitness services in the future will be based on changes in population growth, demography, elasticity of income and the capacity of the industry to tailor services to meet specific needs. Demographic ageing suggests increased demand for fitness services in older age groups (45-64 and 65+), which have traditionally had lower participation rates than younger age groups, but which will now swell in terms of absolute numbers if current participation rates by age and gender are maintained. In addition, as the industry has matured, younger people who have developed an early lifetime habit of utilising services may well carry that practice into older age, whereas current 65+ Australians had much lower exposure to the fitness industry as young adults.

Recent social trends, however, suggest that the fitness industry is also sensitive to factors other than income and demographics – such as innovation, changing lifestyle and generational factors, the increasing attention given by various forms of media, and public policy recognition of physical activity as a treatment and/or prevention against chronic health conditions. As governments and various health organisations continue to promote the need for physical activity, and as the fitness industry continues to innovate to meet the needs of clients, it is likely these factors will continue to drive industry growth.

In an effort to limit the rise in public health system costs, the Government has invested heavily in preventive health – as evidenced by the establishment of the National Preventative Health Taskforce in 2008 and the associated national strategy. The strategy focuses on increasing physical activity, particularly in obese and older populations, noting that physical activity is the 'best preventative medicine for old age' (National Preventative Health Taskforce 2009). Furthermore in 2010, the Commonwealth Government established the Australian National Preventative Health Agency, specifically to strengthen Australia's investment and infrastructure in preventive health.

## Revenue

It is estimated that the industry generated a 2014 revenue of over \$1.35 billion.

Membership fees made up 83% of income followed by personal training fees. When the industry is segregated, the revenue of at least half of all businesses are under \$100,000, but the next largest group, at 37%, each generated between \$1m and \$3m in income. Trends show changes in consumer preferences (due to more disposable income and other factors such as increased interest in health & wellbeing) has had an impact on revenue with some spend and patronage shifting into other, growing, fitness/health/well-being and recreational consumption preferences. Businesses are increasing their revenues by average, 4%, but this average is probably inflated by 24/7 facilities and fitness studios which have seen greater levels of growth, being 11% and 12% respectively.

## Operating expenditure

In health and fitness centres and gymnasia, labour costs were the biggest component of expenses, followed by rent. Fitness Australia reports that labour/staff wages at 36% and rent at 27% together comprised more than half of total expenses (ABS 2011); but Benchmarking Pty Ltd in its report of *Average Results for Health & Fitness Centres: Gymnasiums- 2015*, indicated these business averages at 30% for labour/wages and 18% for rent – quite a disparity with the FA Industry numbers.

As a large proportion of the fitness industry's costs are fixed in nature, the profit margin is sensitive to movements in revenue, which comes largely from fitness centre memberships.

For information, the proportion of forecast 2015/2016 MLFC salary and wages costs as proportion of the total operating budget is 53.2% (after a reduction of a 4.6% rebate that the centre's budget receives from the YMCA in form of a corporate contribution for sharing particular management costs); plus an additional 8.1% staffing expenses (training, WorkCover, super, FBT etc). The disparity is probably due to the high level service model that the centre has and that some programs may be generating less income, than that it costs to deliver them. This needs to be further reviewed.

This excludes the YMCA Management Fee, which is forecast at 10% of the op budget.

In comparison, the Australian Fitness Industry Report 2012 reports that industry expenditure averages for 24/7 gyms were significantly lower in regard to salary/wages at 17.9% and rent at 19.2%.

## Accountability and Regulation and Business

Consumers, governments, insurers and stakeholders will demand greater accountability for results; governments and insurers may subsidise or mandate more attention to preventing illness and disease; the proportion of locally focused and delivered services is likely to increase, both through regulation (for example, urban planning) and as businesses respond to customers' values.

### 6.5 Potential management and service models, including, potential partnering with other services within the City and/or alternative uses of the building.

Commentary in this section is predicated on the basis that the Marion Leisure and Fitness Centre remains a Major Community Facility as specified in the Community Management Plan 3, and is considered to be an important, long-term community strategic asset to provide, through its purpose, important

community outcomes focused on positively affecting the physical and psychological well-being of, primarily, City of Marion residents.

If that position is confirmed by CoM, then I would consider potential propositions in three distinct parts, being:

### **1. Gymnastics SA and the Koorana Gymnastics Club Inc areas**

I would propose that Gymnastics SA and the Koorana Gymnastics Club Inc be retained as tenants, through a first party licensing arrangement with Council.

Rents for both of these organisations, up until recently have remained static I understand for over 20 years, so consider that long –term agreements should be negotiated but with a recalibration of the licence fee, commensurate with the appropriate CoM leasing/licensing policy for community facilities but to more fairly reflect the cost/benefits to GSA and Koorana for use of this valuable community asset – and as a contribution to future costs re potential internal improvements.

### **2. Stadium/courts**

The stadium/courts component of the MLFC is patronised to a high-level with around 180 teams (inc volleyball, futsal, netball, rec gym) with in excess of 22,000 players/participants attending the centre in the last 6 months. This is a significant revenue generator for the centre, with a relatively low servicing and delivery cost and although I have not been able to discern the salary/wage cost for the stadium ops (aggregated in the whole of the centre's salary/wages costs), income is forecast at \$324,000 for 2015/16, which is 30% of the centre's total operating income (ex GSA and Koorana). This excludes secondary spend while at the centre.

The overseeing and the management of the stadium/court operations could be:

- bundled in with any future management model for the fitness/gym/health club agreement; or,
- could be kept separate and if the centre management agreement goes to an EOI or tender stage, then this component could be included in the EOI/tender documents in a way that doesn't require submissions/tenderers to be compelled to put in proposals for both the bundled services – but both, or either or. Splitting the management services along these lines may well attract bids from Koorana but especially Gymnastics SA, who may have the resources in situ to offer an efficient and low-cost service model.

### **3. Fitness/Gym/health club and café & kiosk**

It is considered that a more balanced, and sustainable commercial cost/social & community benefits model for Council and stakeholders needs to be determined.

All and the only options considered should be on the basis that the Council mitigates its operational responsibilities as owner of the facility and completely removes any financial risk to it by way of underwriting, or the forgoing of some form of rental dividend.

This may be reached through a variety of ways, including:



### **Retention of the fitness/gym/health club operations**

- (i) Conversion to a 24/7 model is an option. Benchmarking indicates that labour costs are significantly lower- on comparison by 50% (being 18% of all op costs against 36% of all op costs) - than traditional, full-program for all age groups centres.

Note that a costing exercise would need to be undertaken as some additional infrastructure may be necessary (car park lighting) and some would definitely be required (security systems upgrades inc CCTV, electronically operating doors/security swipe passes for members).

- (ii) Changing the MLFC operating model through product/program variance or shedding to bring about a reduction in operating costs; a more substantial business refocus and renewal (of the gym and fitness component).
- (iii) Seek to reduce costs through changing the centre's operator/management arrangement.
  - Through open or selective tender:- in addition to the YMCA (who are clearly a very professional organisation, providing an excellent service), other organisations operate in this field including Belgravia Leisure PL, Leisure Management Services (LMS) Pty Ltd, Ardent Leisure (owner of Goodlife Health Clubs).
  - Putting the centre out to tender would also benchmark and compare any tenders from non-traditional operators, including the Hope Church
  - Look to attract a major fitness/health club operator or chain, on partly subsidised (rent) commercial terms, in return for offset of some benefits to the community/members (eg, could be discounted memberships for all/or just CoM residents).

### **4. Innovate and change:- from fitness/gym/health club for all, to a Wellness Centre**

Do away with the fitness/gym/health club, establish a new Wellness centre

In line with the industry market trends analysis outlined in 6.4 above, consider being much more innovative and visionary by taking a community leadership role in redesigning the physical and psychological health, well-being, exercise service delivery model to fit a specific segment of the community, rather than the prevailing model which at a higher delivery cost structure, looks to cater for every age group and demographic, 15 -75 and above.

This would create new opportunities to form collaborations and formal partnerships with the state and national governments; and key stakeholders in the health sector and aspire to greater community outcomes by changing the focus of the product and programs to be much more health, well-being oriented, with low impact, gentle exercise programs, fully interconnected at the centre, with the allied health industry, to the 50+ market.

It could be easily rationalised that changing from a fitness/gym/health club set up, to a Wellness centre operation would provide the Council with an early-adopter leadership role in that, according to Australia's peak industry body, Fitness Australia, this is not presently being given enough focus. The wellness component of fitness/health clubs is presently a secondary product and service offering within some centres (inc SAALC, The Parks Community Centre), rather than it being a holistic, primarily focused wellness centre, aimed at a significant sector of the



community that is not being particularly well catered for by the commercial, and even private and NFP operators.

- (i) It should be expected that the social dividend and community wellbeing benefits would be greater than that from the current fitness/gym/health club outcomes.
- (ii) Perhaps through a facility and precinct approach, Council could, in collaboration and partnership with state and national governments; and key stakeholders in the allied health sector, including public and private health insurance providers, identify the opportunity to establish (visiting or in situ) of a range of complementary services within the MLFC, in conjunction with a Wellness Centre. And that a full cost benefit analysis and strategic asset review and assessment be undertaken, prior to progressing any tender process for the management of the MLFC.
- (iii) Fitness Australia advises that the equipment requirements and operating costs would be substantially lower than that for a traditional fitness/gym/health club. However, a key aspect for this market demo is to have a hydro/therapy component. No assessment has yet been conducted as to the operating, including salary costs of having the spa and plunge pool in operating mode, nor if indeed any additional wet/hydro facilities would be required if this option is to be seriously considered.

**5. Option: Retain Koorana, and Gymnastics SA, keep open the stadium/courts, “throw-open” the current fitness/gym/health club area for other community purpose.**

This option is to effectively close down the fitness/gym/health club operations and to, by public and or select invitation, or tender, invite submissions from qualifying community entities, clubs and other public-good organisations/institutions, to submit proposals for the use of this area.

The Hope Church proposal, for example could also fit within this option – separate to but as well as the option of retaining, if Council wanted, the fitness/gym/health operations but with them as a lessee, not on a management agreement.

The objective of this position, would be to totally remove cost risks re underwriting the MLFC operating budget but to ensure that the facility, per policy guidelines as a strategic asset, fulfils, in line with that, a valuable use purpose for the benefit of the CoM community.

**6.6 High level cost benefit analysis of asset renewal requirements or disposal. Including consideration of potential income from the facility, required maintenance costs and capital works.**

I will refer to some information and data from the various reports and documents provided to me for this review but in the main, without engaging with the appropriately qualified specialist firms, I am only able to provide personal, qualified evaluations and opinions.

- (i) High level cost benefit analysis of asset renewal requirements or disposal; and capital works:

The Coffey Environments services PL Maintenance Audit Report 2007 found that the building, constructed in 1978, was structurally sound and had a remaining life of greater than 30 years.

It is not considered that a substantial asset renewal is required for the facility to continue to function effectively.

However, should Council seriously canvass the option to refocus the fitness/gym/health operations to, for example a Wellness centre, then consideration will need to be given to a capital upgrade re an internal refit and additional wet/hydro areas. I am hazarding an estimate at \$250,000 to \$500,000.

The other consideration is in regard to the *Disability Discrimination Act 1992*. As Council is aware, parts of this Act do not need to comply as the building was constructed before the Act came in to force.

Notwithstanding, if a part renewal of the asset were to be proposed, from a legislative point of view – that is whether the Council would be compelled to apply the Act –and from a *discretionary*, social equity/best practice perspective, should Council also consider voluntary compliance, in regards to installation of an elevator (and any other infrastructure per DDA 1992). Excluding design work and any significant structural work, my research (cmd group, smart building elevators) indicates that for a one stop elevator, the unit cost would be in the order \$100,000.

The other potential renewal/upgrade is not structural but a discretionary item pertaining to the internal and external aesthetics and presentation of the facility. Variously described as tired looking, unattractive, unappealing, old and dated, the facility could well do with some beautification work and a make-over, internally and externally. Some comments about the facility are that it presents as a low-end facility and it is perhaps unfairly expected to compare in some ways with more modern and new facilities such as the Parks Community Centre and SAALC. Investment in this aspect may not be a key revenue driver but it may be a factor in decision-making by potential lessees and customers/members in the fitness/gym/health and Wellbeing sectors; and or alternative users of the centre. Cost estimate in the range of \$250,000 - \$750,000.

#### (ii) Potential income from the facility

My starting point is to consider what components of the facility can, through improvement, change or cessation provide a great net economic return to Council.

##### 1. My model *assumes* that both Gymnastics SA and Koorana will remain, as licensees.

I would suggest that rent needs to be recalibrated to reflect a fairer return to Council for the area each occupies and which factors into account past and present values. This revaluation needs to be addressed openly and transparently with the licensees and a fair formula determined with them to arrive at a new starting point.

I am lacking in-house knowledge to compare and relate other CoM community facility leases and licences, which would also be a good reference point for discussions and determinations with Gym SA and Koorana. However, I would think that an uplift in rents, in the order of 50%, staggered over the next 5 years, with perhaps a further 25% in the following 5 years would be fair and reasonable.

This would result in current combined rent of \$65,000, increasing to, say, \$97,500 pa in 5 years, and Increasing to, say, \$113,750 within 10 years.

##### 2. Stadium/Courts

My model assumes that the stadium and court facilities and services will remain basically as is.

I would want to conduct some further financial modelling with CoM staff (David Barrett would be excellent, especially given his familiarity with all MLFC financial info and reports) but on the basis of known (actual) income generated remaining reasonably steady/incrementally lifting beyond 2015/2016 forecast (\$320,000), and making some assumptions as to the proportion of overheads and running costs (assumed at 10% of labour plus on-costs: \$52k; actual 10% of YMCA's management fee: \$10k; and assumed 20% of all other costs: \$93k) as part of the global MLFC administration costs, if this component of the business is segregated, it is:

- Realistic to expect net income lift to Council in the order of \$100,000 to \$120,000 pa as a stand-alone operation.
- Realistic to expect a net income lift to Council in the order of \$140,000 to \$170,000 pa if servicing and booking management oversighting, caretaking function etc is contracted to one of the in-situ tenants, eg, Gymnastics SA, or a new community body lessee that comes in, such as Hope Church.

### 3. Gym/Fitness/Health Club; or Wellness Centre; or other/alternative purpose

The first part of this equation is to endeavour to improve the dividend/return to Council by reducing its subsidy to the facility and mitigating, or entirely removing the underwriting risks.

Closing, or repurposing this part of the MLFC will of course totally remove the operating subsidy through the Council's underwriting of the P&L. For 2015/16, this is expected to be approximately \$70,000, principally being the Gym SA and Koorana rents that are calculated into the centre's operating budget.

The second area of focus is, either to change the operational model – whether it remain as a fitness/gym/health club facility, or for an alternative purpose- to an arrangement that goes back to a community lease arrangement where Council is guaranteed an income through a rent charge. There are various matters to consider here so it is difficult to calculate potential earnings without progressing to identifying the community and or commercial purpose; looking at partners and collaborators that can offer a synergistic predisposition to the facility and conducting some further modelling.

However, I should expect that Council should be able to generate pa income between \$50,000 and \$175,000 from this component in the centre.

#### (iii) Required maintenance costs

The Coffey report listed what minor and other general maintenance issues had been identified for the 10 years 2008 through to 2017, which were estimated by Coffey at \$51,340 for the Koorana building (actual was \$41,685 for 8 years through to 2015); and \$253,400 aggregate for the "main building" for the 10 year period through to 2017 (actual for 8 years through to 2015 was \$290,160). Combined maintenance total, 2008 to 2015 was \$331,845 at a PA average of \$41,480.

An additional \$85,000 was expended in the 2008 – 2014 period on minor capital maintenance upgrades.

FY 2016 maintenance costs are forecast at \$53,350, which, relative to building age is reasonably modest. At a factor of 2:1 re replacement estimation by Coffey of the 2013, \$7,558,020 capital valuation of the building, the replacement value is estimated at circa \$15m.

I understand that a follow up building maintenance audit will be conducted on the MLFC in the near future. In the interim, as a guide, I would expect that the recurrent costs of maintenance would be in the order of FY 2015's, being \$61,000, with PA increments.

#### **6.7 Community and stakeholder impact, including sub tenants.**

I will consider and address these by constituent user group.

##### **(i) Members and users of the MLFC's fitness, gym and health club**

As at September 2015, the MLFC has a total of 784 members, ranging from 6 to 12 month direct debit contracts.

60% of members are identified as CoM residents.

110 members (for 145 persons) have membership contracts beyond end of February 2016, with expiries being 39 memberships (47 persons) in March, 33M (44P) in April, 22M (33P) in May and 16M (21P) in June.

As commented by the YMCA in its Quality Assurance and Business Plan 2015-2016, the MLFC "has an historical business model which is not sustainable and that 80% of the member base are on significant discounted rates". While there are many alternative opportunities – indeed, 12 competitors within a 5km radius - for members, if this part of the centre were to close, or be repurposed, there are limitations to discounted/low price memberships. However, there are 24/7 Gym and Fitness operators (including the Blackwood Fitness Centre which has the lowest priced fitness and gym membership rates in Adelaide) and full-service facilities that offer reasonably priced casual visitation rates and term memberships, so current members would have multiple options to consider.

##### **(ii) Stadium Courts**

Demand for indoor court facilities is ever increasing. Supply is a significant issue and closure of the stadium and courts would affect a significant number of clubs (including Koorana which is a casual hirer), state and district associations and teams that use this facility on a day, night and weekend basis.

Core users are the over 180 teams of in excess of 1000 volleyball, basketball, netball, futsal players and recreational gymnastics members.

Extrapolating March to September 2015 attendances, projected throughput of these teams and other court users is expected to be around 40,000 for the 12 month period.

Closure of the stadium and courts would be a seriously major issue for court users which I expect would effectively displace most. Given geographic and court availability issues, it is probable that some teams would fold-up.

##### **(iii) Gymnastics SA**

Gymnastics SA (GSA) has been based its state headquarters at the MLFC since 1982 and is the peak body for SA's 66 clubs and approximately 16,000 members.

It embraces eight Gymsports which as well as providing for elite athletes, is positioned to promote a healthy lifestyle and active participation for athletes of varying levels of ability.

In an overview of the sport and its place at the MLFC, GSA provides an historical context to its role and contribution to the 1982 MLFC extensions of the purpose-built gymnastics centre and the two indoor multi-purpose courts (Courts 1 and 2). The overview document makes a statement that the SA Gymnastics Association, by way of cash, and through a government grant to the Gymnastics Association, contributed \$270,000 to the extension cost and it (the GSA Management Committee) considers that it has some non-legal but inherent “ownership” and stake-holding in the facility

As a purpose designed building for gymnastics, the configuration, especially in its height (8metres) is something essential to its purpose.

GSA considers the MLFC to be its “spiritual home” and believes there would be very few feasible and cost-viable options for Gymnastics SA to consider, if the centre were not available in the future. Given, particularly the height requirements for some elements (rhythmic) of the elite programs, some elite and high-performance components of the training and competition programs would be restricted to venues such as the AEC, Adelaide Convention Centre, perhaps the netball or basketball stadia; and one of the pavilions at the Wayville Showgrounds.

I think it would be devastating for Gymnastics SA to lose the MLFC as its elite and high performance centre. A long lead time would be required for any relocation to enable rescheduling of their elite competitions and high-performance training and to source a new permanent home base venue.

Claims of having some sort of inherent (but non-legal) ownership/stake holding would need to be considered.

#### **(iv) Koorana Gymnastics Club Inc**

The Koorana Gymnastics Club has been based at the MLFC since its creation as the Marion Recreation Centre in 1978.

As conveyed by Koorana President, Mr Barry Barnes, the club was the first major occupant of the centre and financially contributed \$20,000 check to its construction.

Koorana is the 2<sup>nd</sup> or 3<sup>rd</sup> biggest club in South Australia and has 400 members in its programs, mostly aged between 5 and 16, with a waiting list of 250 children. Koorana has 95 girls in its development squad.

The club is supported by 60 volunteers, some who dedicate up to 30 hours per week to their cause.

Koorana consider their centre to be the best club set up in Australia. It is proud of its facility as a purpose design and built venue; and that it financially contributed to the cost of its construction in 1991/2 by way of a \$250,000 loan (borrowings from Council). This was partially repaid over the 7 years through to 1998, when the loan was extinguished by Council and Koorana became a sub lessee tenant, with annual rent of \$40,000 pa (which only very recently, increased to \$41,000).

I think it would also be devastating for Koorana Gymnastics to lose the MLFC as its club competition and development centre. A long lead time would be required for any relocation to enable rescheduling of their training, development and training to source a new permanent home base venue.

Koorana also considers that it has some sort of inherent ownership/stake holding, which needs to be addressed.

## **7. Summary of Observations and conclusions**

The Marion Leisure and Fitness Centre, a Major Community Facility as specified in the Community Management Plan 3, is considered to be an important, long-term community strategic asset which continues to provide, through its purpose, important community outcomes focused on positively affecting the physical and psychological well-being of, primarily, City of Marion residents.

- 7.1 The MLFC building was maintenance audited (Coffey Environments PL) in October 2007 and was deemed to have a remaining life span of greater than 30 years (viz, beyond 2037). No major or significant maintenance issues were identified in that report.
- 7.2 The predicted life span of the building allows long-term planning regarding its continuing functional use/s as a community asset.
- 7.3 Key performance metrics for the MLFC as well as commentary from the YMCA illustrate that the fitness/gym/health club component of the MLFC is an unsustainable business model (58% drop in membership from a high of 1,853 in 2007, to present day of 784; and membership income dropping from \$1.456m in 2011, to projected of \$459,000 for 2015/16 - a reduction in income of 68%).
- 7.4 Research shows that the fitness and gym market is at a point of saturation and is segmenting, rather than innovating – while competitive industries are evolving.
- 7.5 It is considered that a more balanced and sustainable, commercial cost/social and community benefits model for Council and stakeholders needs to be determined.

This could be reached through a variety of ways, including:

Changing the MLFC operating model through product/program variance or shedding to bring about a reduction in operating costs;

- a more substantial business refocus and renewal/alternative purpose (of the gym and fitness areas); and/or
  - By seeking to reduce costs and or subsidies through changing the Centre's management model, or,
  - Closure of the fitness/gym areas.
- 7.6 As an option, Council has the opportunity to consider taking on a leadership role in considering strategic, innovative, holistic and more collaborative community wellbeing responses; and contemplates alternative services, amenities and programs that would aim to improve the health and well-being of an increasingly sizeable ageing population in the CoM.

It considered that there is an opportunity to strategically review the fitness/gym/health club component of the MLFC, including a shift of product and service offerings from the prevailing traditional gym and fitness centre model, to one providing holistic health and well-being focused outcomes through gentle and low impact exercises, hydro programs, primarily focused on the increasingly needy 50/55+ year age group. According to the peak body for fitness operators, Fitness Australia, this type of facility is not being done properly anywhere in Australia, at present.

It is considered that any review should be undertaken with potential collaborators and service delivery partners, possibly including the state and federal governments, key providers in the allied health industry, private health insurance org/s, and Fitness Australia.

- 7.7 That Council should not as a general policy, prop up, for other than short term purposes to allow a strategic review to occur and or alternatives to be considered, failing and unsustainable business operations, even where they are providing a service for community good.

This is especially so when the services/outputs of the business can be readily obtained from alternative businesses and organisations in the CoM or general locale.

- 7.8 Unless it is of a vital-need nature and a key local government policy priority for the benefit of the community, Council should not take on the role as underwriter or as a quasi-commercial operator.

- 7.9 That it would be appropriate for the MLFC to continue as the home base for Gymnastics SA and Koorana Gymnastics Club Inc.

- 7.10 Long term sub leases or direct licenses should be considered for Gymnastics SA and Koorana but incorporating fair and reasonable yearly fee increases.

- 7.11 In considering similar/same and alternative community-aligned uses for the fitness area, Council should seek from other organisations, clubs and associations, wide-ranging and varied options, through a call for formal EOI submissions, or a tender process.

- 7.12 That the Hope Church/Big Sunday proposal received by CoM, unsolicited, potentially would provide a very sound community, commercial and operational solution to the tenancy, and part management of the MLFC. Their submission infers that it would take on the MLFC lessee role at a significant pa rental; take on the management and operational role of the fitness and gym areas (if this were to proceed to a more formal consideration stage, would need to ensure that no underwriting by CoM); and that they would be a substantial financial contributor to centre renovations – inferred to be towards \$800,000+ in their recent submission.

If Council determines to seek EOI's or call for tenders re the current fitness/gym/health club area, or for alternative uses, this should include a more formal submission from Hope Church (including to understand the potential impact on stadium/court hire users; and on Gymnastics SA and Koorana).

- 7.13 It is plausible that Council could generate better economic returns and greater community outcomes by splitting the fitness/gym/health club area and of the stadium/courts; and to be operated by two separate entities.

- 7.14 However, options for joint and several bids for the two fitness/gym and stadium components of the MLFC should be sought.

- 7.15 Gymnastics SA is in a great position to bid/negotiate/tender for the operations of the stadium and courts. Both in regards to in situ staffing and resources, and economically, to potentially leverage its tenancy and offset some of its rental charges.

- 7.16 Following any strategic review, Council should determine whether a Facility and Precinct Plan is required to be developed for the MLFC; and if necessary at this time, a tender strategy to go to the



market in regards to procuring facility management bids from the traditional facility managers and operators, as well as other community organisations and clubs, in accordance with its facility outcome requirements determined at that time.

## **8. Recommendations**

**8.1** That beyond the prevailing MLFC management agreement (notwithstanding potential for an extension, per 8.2) with the YMCA, Council no longer takes an underwriting position to maintain or sustain the fitness/gym/health club operations.

**8.2** That Council determine a time-frame beyond 29 February 2016, if it wishes to extend the current MLFC Management Agreement with the YMCA, to provide the necessary time to undertake any community consultation and engagement process, or to further the strategic review process, or Master Planning, or EOI preparation, or Tender program, in relation to the future purposes of the MLFC.

(For reference, the YMCA Business Plan 2015/16 forecasts a financially positive operating period, March – June 2016. Extending the Management Agreement to this date should provide sufficient time for Administration to further consult, consider and investigate future options and for Council to commit to a particular strategic path. Extension to the current conclusion date of the YMCA management agreement to 30 June 2016 would also provide for the “natural expiration” of the various classes of the fixed term membership contracts. See 6.7 for membership contract expiry timelines)

**8.2.1** However, if Council does not wish to extend the YMCA management agreement, it is recommended that members on term contracts beyond 29 February 2016, be offered the option of a financial refund for the unexpired period, or a transfer of equivalent membership rights to SAALC (which would need to be negotiated with the YMCA), for the remaining period.

**8.3** That Administration advise Council whether sufficient situational, industry and operating environment analysis and information is available within this report to determine whether any further consultation or a broader Asset Management review, or Master plan of the MLFC is required to enable Council to fully consider and contemplate the potential future options referred to in this report:

**8.4** That Council not commit to any particular future use for the areas presently utilised for the fitness/gym/health, other than that it be used for a purpose which would deliver some component of community benefit and outcomes.

**8.5** That Council determine whether it wishes to consider taking on a facilitation role in leading discussions, consultations and engagement with the community, key stakeholders, government, the allied health sector and the fitness industry in relation to establishing a Wellness Centre at the MLFC.

**8.6** Subject to the course of action determined per recommendations 8.2 and 8.5, request Administration to draft up and subsequently implement a plan to call for EOIs - or tenders – for submissions for:

- the principal lease at the MLFC, including lease and utilisation purpose of the fitness/gym/health areas;
- and jointly or severally, the stadium courts area (see 8.7); and
- plans for any capital renovations/renewal/upgrades to the MLFC



**8.7** Preceding any action per 8.6, Council to determine whether to request from Gymnastics SA a submission for the management and oversighting of the stadium and courts operations, or whether it wishes to include this component of the MLFC within a broader EOI or tender call.

**8.8** It is recommended that Gymnastics SA and Koorana Gymnastics Club be provided with location and tenancy surety and an agreement which protects their areas of particular utilisation at the MLFC.

**8.8.1** That Council enter into negotiations for new, long term licenses with Koorana and GSA but which reflect a fairer and more equitable economic arrangement with CoM, which is recommended to be in the order of an uplift in rents, in the order of 50%, staggered over the next 5 years, with perhaps a further 25% in the following 5 years.

#### **End of Review report**

This concludes the report. It is to be noted that:

- I only reviewed the materials provided and those additionally identified and requested.
- I have relied on the accuracy and correctness of data and information provided to me by the CoM; and of data and information provided through CoM, by the YMCA, Gymnastics SA and Koorana Gymnastics Club Inc.
- If there are any clear errors or omissions I am prepared to amend the report accordingly.

I wish to acknowledge the assistance, cooperation and participation of Abby Dickson.

Review conducted and report authored by Sam Ciccarello

Final Draft report by email to Abby Dickson, 13 November 2015