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Title	Commercial Enterprises in the Sport and Leisure Environment		
Wards affected	All Wards		

This report looks at the typical measures you would expect to see in a sport and leisure commercial enterprise and contrasts these with the changes delivered through the Fundamental Service Review (FSR) of the Council's Sport & Leisure service

1. Decision(s) Required

- 1.1 Members are asked to note the contents of the report and comment on the service's progress and plans to meet the commercial challenges of the sport and leisure sector.

2. Introduction and Background

- 2.1 The Sport & Leisure FSR process set out a plan for the development and commercialisation of the Sport and Leisure Service over a three year period with the aim of achieving a break-even financial position on direct costs by the end of the 2014/15 financial year.
- 2.2 The FSR Business Case was agreed by Cabinet in March 2012 and work began on the major capital funded building works in September 2012 and these were completed in July 2013. It is worth noting that the sequence/order of the building works/implementation had to change dramatically due to structural and design issues. This delayed the delivery of the implementation plan of the FSR and the resultant increase in income by 7 months, although services continued to be delivered during that period.
- 2.3 The plan was to construct an improved and customer friendly front of house Welcome Zone with new IT improvements that gave customers self-serve options and enabled the service to gather valuable customer data. There were also plans to open a new Catering Outlet, Swim Shop and retail outlet.
- 2.4 There would be a new Gym; Dance Studio and creation of a Spinning Room to meet the new demands of customers who use the leisure industry.
- 2.5 The re-structuring of staff and resources as part of the FSR was also set up to operate three areas in the business under new external management agreements with third parties. These were the Catering service, the Tennis Centre and the retail outlet. In the FSR model all three areas would only require minimal resources to manage the 'client side' of these contracts and also would provide increased levels of income compared to levels pre-FSR. However, the Catering and Tennis Centre contracts did not materialise which impacted on implementation and service delivery.

- 2.6 All these developments were designed to stimulate and renew interest in the facilities, boost customer usage and increase the number of members that would significantly increase the income of the business.
- 2.7 The financial forecast at period 3, 2014/15 budget is expected to deliver the £0.8m of savings and additional income outlined in the FSR business case.

3. The results

- 3.1 The following table shows the core changes as set out in the FSR Business Case and describes what has actually been delivered.

Core Change	Result
Building redesign and improvements to Reception; Aactiva Gym; Classics Bar	All delivered and opened by July 2013
Register with the “myleisureworld” website to obtain discounts, rewards and enable use of self-service options	Leisure Card holders can register and get discounted prices for activities and partner discounts with external companies. Customers can use self- service pods and online booking. Over 21,000 customers registered in the first year.
Use smart-card technology for fast-track options	The Leisure Card enables self-service at kiosks avoiding queues.
Have access to a one-stop website giving information and advice on all their sport, leisure and recreation needs	The service website is specific to all leisure world activities.
Use self-service/fast-track kiosks	The Leisure Card enables self-service at kiosks avoiding queues. In the first year over 150,000 tickets have been issued by this self-serve method.
Make online bookings	Leisure Card holders can make on-line bookings. Approximately 40% of bookings that are available on-line are now made on-line.
Manage and make updates to their personal information	Customers can manage their bookings and make updates to their personal data such as change of address, telephone, postcode within the online bookings package.
Carry out online searches to locate the activity at a time and date of their choice	There is a simplified process since online booking system changed and will be even better with introduction of smart phone ‘App’ The ‘App’ will show real-time availability.
Use other technologies available such as texts and smart phone applications to both access and receive information	All available using My Leisure card and will be enhanced with the introduction of the new Leisure World smart phone ‘App’. The ‘App’ is due to launch in September 2014.

<p>Enable the service to:</p> <ul style="list-style-type: none"> • better understand who our customers are and their needs • improve the management of customers in the building • gain better management information on performance and income in order to develop the service meet the needs of an ever-changing customer base 	<p>The new system has provided us with information about our customer behaviours and habits. Working with the Behavioural Change Group we were able to use this information to facilitate an incentive trial around customer booking methods.</p>
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3.2 Usage

- 92,000 additional visits recorded across key activities compared to previous year.
- Aactiva growth in usage 2013/14 compared to 2012/13 is 25%, however, the new extended gym was open for the whole of the last quarter of 2012/13, therefore if you compare 2013/14 to 2011/12 before the FSR changes the actual growth is 32%.
- Expected growth in aerobics when Les Mills programme introduced in July 2014 – to increase average occupancy levels from 25% to 50% by the end of the financial year.

3.3 There were also other developments in the Business Case that were planned to make the service more commercial. These are summarised in the following table with updates on progress.

Service area	Update
Joint Use Sports Centres	Efficiencies in operations delivered and improved branding implemented. Discussions are on-going with the Gilberd & Thurstable Schools about the development of these sites with a focus on profitability, marketing and service development.
Tennis Centre	Market testing did not attract any interest. Options for the service and the site are being investigated.
Catering	Market testing did not attract any interest. Catering facility developed and run in-house which after a successful first full year of trading is now forecasting a profit. Future options to be considered.
Swim Shop and Retail outlet	The improved Zoggs swim shop was delivered in time for the opening in July 2013; this has shown an increase in income with over 16,000 items sold over the first year and positions us as the highest sales outlet for Zoggs in the UK. The retail outlet was let to a photographic company who commenced trading in October 2013; this is managed under a profit share agreement.
Business Development	Team set up and have worked with Business managers to introduce: <ul style="list-style-type: none"> • Les Mills group fitness classes

Service area	Update
	<ul style="list-style-type: none"> • Outdoor fitness classes • Active + programme <p>Introduced 'points' incentive schemes for Leisure Card holders. Also carried out mystery shopper exercises and competitor analysis. Developed offers for off-peak periods to increase usage and income.</p> <p>Developed relationships with Partners to offer additional benefits to customers, such as discounts at local shops as well as offering additional health and wellbeing services on-site such as letting space to the NHS Breast Screening Clinic, NHS Blood Service and private Physiotherapy services.</p>
Commercial Hub	<ul style="list-style-type: none"> • Our Swim School has been developed (including free swimming for everyone having lessons) and is achieving record enrolments since 2007. • Aqua Springs has received awards from two commercial suppliers due to our ongoing commitment to their products over the last 18 months and high levels of retail turn over. • Leisure World received an award for 'Best Sports or Leisure Centre in Essex 2014' from Primary Times magazine. • The Fitness Pool opens 30 minutes earlier (at 5.30am) now on a couple of mornings a week for the Swimming Club. • Installations of Photovoltaic solar panels to a large area across the roof in order to reduce energy bills and CO2 emissions.
Lifestyle Memberships	<p>A review of the Lifestyle Membership packages and introduction of new packages has resulted in increased live members with over 3,150 members compared to pre-FSR highest recorded number of 2,857 live members which is a 10% increase. Income in 2010/11 when the FSR targets were set was £685k with an expected out-turn this year of over £1m a growth of £315k a growth of over 45%.</p>

3.4 The marketing of the service has also been important in developing awareness of the Leisure World brand and the services provided. Activities that have already taken place include:

- New brand – the recognizable 'Globe' logo has been widely promoted across all sites and is now included on signage, marketing material, décor, stationery, the website, on Twitter and on the Leisure Card.

- Campaigns for new services including; Les Mills, Outdoor Gym, , Underwater Photography Sessions. Refurbished Aactiva Gym (inc. changes to memberships); Reception Area; Coffee Shop and Spinning Room.
- Launched Twitter page in July 2013 and now have 488 followers.
- Leisure Card/Key Fob – introduction of Leisure Card for all customers with additional benefits such as Loyalty points and offers at other local businesses.
- Billboards – at sites across Colchester promoting both the opening of the newly refurbished gym and the launch of the Les Mills programme
- Leisure World Xtra and Charter Hall Xtra – launched and sent regularly to being sent to members and customers.
- Information screens – in Welcome Zone promoting what we offer
- Attendance at events to promote memberships including University Fresher's Fayre, Weightwatchers and Race for Life
- Significant campaign for Memberships at train stations on barriers that all rail travellers use

Future developments include:

- Leisure World 'app' launched for all smart phones
- Gov Radio which enables internal advertising by all CBC Services reaching our million plus customer visits per year.
- Advertising space within the adjacent McDonald's restaurant
- English Tourist Board – brown road signs to be updated directing customers to Leisure World, Charter Hall and Aqua Springs
- Facebook – an account specifically for Leisure World
- Website development to make more user friendly and commercial, add virtual tours and classes
- Web Key - USB memory stick / QR code within Promotional Card given out at Exhibitions regarding Town Hall weddings (pioneered by ECC, paid for through advertising, free to CBC)
- Collaborations and reciprocal deals with large employers or educational institutions
- Welcome packs for new members and new residents in the Borough
- Further development of the café brand at Leisure World Colchester into other business units such as Aqua Springs
- Ability to update live information and promotions via digital display boards.

- 3.5 The changes in the business model and philosophy in the service have required staff to go through a change in the way that they approach their roles and perform their jobs. There has always been an emphasis on excellent customer service, but in addition staff are now expected to be business focussed. Training has been given in sales and marketing to a number of front line staff and that will be continuing as services develop. There has been a lot of work on developing a new culture and the Head of Service and Group Manager have held workshops for all staff that shared the Council's commercial principles and highlighted their role in the service meeting its business targets.
- 3.6 From this Members can see that the vast majority of the core changes identified in the Business Case have been delivered and in the Financial Performance section below the outturn position based on three months' performance is positive.
- 3.7 However, like any business Sport and Leisure cannot stand still and it needs to keep growing and developing like any successful commercial organisation whilst ensuring that it is providing the services that retain existing customers and attract new ones. The sport & leisure industry is very competitive and, whilst there will always be a demand from people to access facilities that enable them to remain active, the expectation of the

service they experience has to be comparable with any activity they carry out in their leisure time.

3.8 As part of the planning for the delivery of Sport and Leisure for the next 3 years and beyond, a Borough-wide Sports Facility Strategy is being produced this year that will:

- Analyse supply of and demand for indoor and outdoor sports facilities in Colchester.
- Identify gaps in provision and explore opportunities for improved provision.
- Provide built indoor sports facility analysis and strategy including recommendations
- Produce a playing pitch strategy incorporating policy options, local standards and an action plan.

A national leisure marketing specialist are currently benchmarking our financial performance for the fitness centre and swimming lessons against other leisure centres in the country to identify where opportunities exist to increase income even further.

3.9 The industry both locally and regionally is always developing with either new competitors arriving or new trends starting. Over the next few years the service can expect competition from David Lloyd Leisure as well as other developments in the North Colchester Gateway area. There is also likely to be increased retail or leisure provision on the land opposite Leisure World and increased competition from new businesses entering the health and beauty market which competes with Aqua Springs.

3.10 To meet these challenges the future Business Plan includes:

- Improvements to Aqua Springs, including the café, and a full re-launch of the facility
- Remodelling and improvements to both female and male dry side changing rooms responding to customer feedback
- Active marketing to increase corporate membership take-up
- Investment in new kitchen area and VIP lounge to cater for wider range of Charter Hall Events.
- Use of technology to gain better customer insight – such as electronic customer feedback systems – to provide more targeted services and offers. Increased use of Trip Advisor etc for recommendations
- Continue to consider opportunities to work with external Partners to maximise the operations & facilities across the business.
- Use existing retail space to sell a larger range of items
- Using high-profile national events (such as Tour de France or Football World Cup) and national campaigns (such as ‘Stoptober’ or ‘Movember’) to create a buzz in the centre
- Review minimum age restrictions for entrance into Aqua Springs
- Review the opportunities to work with Health & Wellbeing organisations to develop Leisure World Colchester as a business partner.
- Build on ongoing popularity of Leisure Pool by adding new features to keep it modern and fresh and refurbishment of changing rooms.

4. Comparisons and competition

4.1 The Local Authority market

Colchester Borough Council has been very clear that it is working towards a specific target of Sport and Leisure returning an operating surplus by the end of 2014/15. We are not aware of any other authorities in Essex or in our close Suffolk neighbours, Ipswich and Babergh, who have a financial target and none have included such a target in their published strategic aims.

Since the early 1990s local councils have had options for the outsourcing of sport and leisure services to external organisations, with a number of models available, such as trust status or through private operators. Colchester Borough Council considered a transfer of the whole of sport and leisure services to a newly created non-profit distributing organisation (NPDO) but this did not take place because it was not as attractive as first thought from a financial and operational view.

Braintree and Maldon's sport and leisure facilities are managed by private sector operators. Chelmsford, Tendring and Ipswich operate their services in-house. Chelmsford were pursuing the trust option for its wider leisure services but decided in 2007 not to proceed with this project and remain operating in-house. Tendring were looking to outsource in 2004 but in 2013 committed to invest £1.5million in its leisure facilities as part of their ongoing plan to continue to deliver services in-house.

4.2 The private sector market

In July 2014 an analysis of our key 9 local competitors in the health and fitness market was undertaken, including desk research and mystery shopping visits to them all. The information gained is helping to shape our membership packages, promotional campaigns and pricing strategies in the future. For commercial confidentiality reasons this report does not include specific examples but in general the research identified the following:

- Most gyms similar to Leisure World (LW) only offer contracts of at least 12 months or a significant increase in price with no contract and have a joining fee
- None have the same size of gym and amount of equipment than Activa
- Most offer classes and some do have as extensive a range as LW
- Most offer free parking and sell sports drinks and energy bars as well as light refreshments
- There is a noticeable reduction in cleaning standards and staffing in the budget gyms
- The Spa offer in one business is impressive due to its quality and range of services, however this is also the most expensive competitor
- The quality of the introduction and sales process was mixed although all staff were positive and pleasant.

The research found that the offer at Leisure World Colchester is still positioned where the FSR Business Case said it should be, delivering a good value offer with the additional benefits of a large sport and leisure facility. It is clear that LW is not the cheapest, but equally the competitors will find it hard to undercut the range and quality of the services and the added benefit of no monthly contract.

The Health & Fitness industry is a significant part of the LW business and a key part of the FSR review with the Council investing in the extension of the gym and building a bespoke studio space based on researching the demand and realising the potential to increase income and usage. The net income for this area is around £1.6m per year which is a third of our income with 265,000 visits per year and around a quarter of our usage.

As part of the Business Plan for 2014/15 we are investing further in this area by refurbishing and modernising Aqua Springs which is already a 'Unique Selling Point' and one that customers find highly desirable and also, by re-modelling the dry changing areas to a high standard, it will ensure that they compare favourably to the changing facilities of the private sector.

- 4.3 However, as well as the direct competition with other providers of fitness centres, swimming facilities and spas, Sport & Leisure are also competing with any other leisure provider for people's disposable income. This can be cinemas, theatres and even restaurants in fact anywhere that individuals and families can choose to spend leisure time and their money. The offer and prices of these leisure providers are reviewed annually as part of the fees and charges setting process.
- 4.4 Competition is also not limited to Colchester as people can choose to use facilities in neighbouring towns and with London and its many attractions less than one hour away on the train the offer particularly at the main Leisure World site needs to be high quality and excellent value. It has to be built on its convenience, its benefits to health as well as highlighting the enjoyment and pleasure of a visit.
- 4.5 It is also useful to get an external view of how well the business is set to meet the commercial challenges of the sport and leisure sector now and in the future. To do this the meeting will be attended by Mike Hill, the Managing Director of Leisure Net Solutions Limited who are a leading provider of customer insight, business intelligence and consultation services to the cultural services, active leisure and health & fitness industries.

5. Strategic Plan References

- 5.1 This report links to the Strategic Plan priority area of "Providing sport and leisure for all, alongside good quality green spaces and play areas"

6. Financial Performance

- 6.1 The financial impact of the changes are set out below with actual figures used for the last two financial years and the agreed 2014/15 budget which at this stage is expected to be achieved. This reflects the delivery of £0.8m of savings and additional income outlined in the FSR business case.

	Actual 2012/13 # £'000	Actual 2013/14 # £'000	Budget 2014/15 £'000
Direct Expenditure	4,681	4,141	4,268
Direct Income	-4,160	-4,319	-4,530
Net Direct	521	-178	-262
Specific non-direct charges*	142	532	441
Total Net	663	354	179

Notes:

* From 2013/14 includes costs of repair and maintenance service now managed centrally. Non direct costs via Head of Services are not included

Spend figures in 12/13 and 13/14 include one-off redundancy costs

- 6.2. The Council agreed the FSR capital investment of £1.6m which included the cost of changes to the building (£1.4m) and IT systems (£0.2m).
- 6.3. Some of the key financial issues to highlight are:-

- Income in 2013/14 of over £4.3m delivered an income growth of almost 4% across the business compared to previous year.
- Income in 2014/15 is set to continue to grow with a target figure of over £4.5m.
- Expenditure efficiency savings targets in the FSR Full Business Case were achieved during 2013/14.
- The budget for 2014/15 is set to deliver the full FSR savings target of £0.8m

7. Equality, Diversity and Human Rights implications

- 7.1 The EQIA for the Sport & Leisure FSR is linked below:
<http://www.colchester.gov.uk/CHttpHandler.ashx?id=3760&p=0>

8. Risk Management Implications

- 8.1 The following risks were identified before the implementation phase of the FSR:

- time, skills and capability to deliver the change
- alignment of service ICT priorities and costs with those of the wider Council
- dependency on technology to deliver review objectives
- resource availability for planning, and then for implementation
- the effect on performance, income and customer service during transition
- the effect of increased fitness centre competition on achieving income targets
- securing the investment necessary to deliver review objectives
- creating the 'customer focus/commercial edge' culture required to deliver review objectives
- impact of economic climate on forecasts for commercial income
- effectiveness of communications with a large dispersed staff group
- Potential customer dissatisfaction with service changes and related negative media coverage.

9. Standard References

- 9.1 There are no particular references to the publicity or consultation considerations; or community safety; health and safety implications in this report.

Background Papers

Street & Leisure FSR Business Case