REPORT TO:	Cabinet
DATE:	17th December 2009
SUBJECT:	Splash World – Review of full financial year of operation
WARDS AFFECTED:	All
REPORT OF:	Graham Bayliss – Leisure Director Tel: 0151 934 2371
CONTACT OFFICERS:	Steve Deakin – Assistant Leisure Director (Operational Services) Tel: 0151 934 2372
EXEMPT/ CONFIDENTIAL:	No

PURPOSE/SUMMARY:

To update Members on the financial performance of Splash World Leisure Pool after a full financial year of operation for the period April 1st 2008 to March 31st 2009.

REASON WHY DECISION REQUIRED:

Cabinet requested a report of this nature after a full financial year of operation to assess the viability of the facility against the initial Business Plan submitted by consultants three years prior to opening.

RECOMMENDATION(S):

1. Cabinet notes that the increased Splash World utility costs have been built in to the Council's MTFP from 2010/11.
2. Cabinet notes the improved performance of the Council's other Leisure Centres that allowed the additional costs of Dunes / Splash World to be partially offset in 2008/9, reducing the additional costs from £369,000 to £252,000.
3. The projected income reduction variations of 10% per annum arising out of the Business Plan be built into the Council's MTFP from 2010/11.
4. Cabinet notes the withdrawal of the sinking fund in 2008/9 as a budget saving, and the requirement to facilitate prudential borrowing for up to £1m in 2013/14 to undertake a refurbishment of Splash World.

KEY DECISION:	Yes
FORWARD PLAN:	Yes

IMPLEMENTATION DATE: Following the expiry of the "call in" period for the minutes of this meeting.

ALTERNATIVE OPTIONS: None

IMPLICATIONS:

Budget/Policy Framework: As previously reported.

Financial: For the period 1st April 2008 to 31st March 2009, Sefton Council has provided a net operational deficit budget for the operation of Dunes Splash World of £178,800 (excluding capital charges). No additional budget was provided for Splash World as a Business Plan produced for the Council indicated that the new facility could operate without increasing the net deficit. Splash World has performed exceptionally well in all areas of controllable expenditure. However, large rises in utility charges since the Business Plan was produced, coupled with an unexpected increase in NNDR in excess of the provision made in the Business Plan, has resulted in the net deficit for the combined Dunes Splash World increasing by an additional £368,746 at the end of the first financial year of operation.

Should utility and NNDR costs continue in their upward trend, and the income reduce by the 7% -10% per annum identified by the Consultants in the business plan, the costs of Dunes Splash World could increase year on year from the current £368,746 as follows: -

CAPITAL EXPENDITURE	**2009/ 2010 £**	**2010/ 2011 £**	**2011/ 2012 £**	**2012/ 2013 £**
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources				
REVENUE IMPLICATIONS				
Gross Increase in Revenue Expenditure	412,000	462,000	517,000	579,000
Funded by:				
Sefton funded Resources				
Funded from External Resources				
Does the External Funding have an expiry date? Y/N	When?			
How will the service be funded post expiry?				

Legal: Nothing specific.

Risk Assessment: The Splash World project was undertaken on the basis that it should not add to the net deficit of the existing Dunes Leisure Centre. Increased costs beyond the control of the Council have seen the net deficit rise by an additional £368,746 after the first full financial year of operation.

Asset Management: In line with the Council's Asset Management Strategy.

CONSULTATION UNDERTAKEN/VIEWS

Finance Department – FD 255 . The Finance and IS Director's comments have been incorporated into the report.

CORPORATE OBJECTIVE MONITORING:

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community		√	
2	Creating Safe Communities	√		
3	Jobs and Prosperity	√		
4	Improving Health and Well-Being	√		
5	Environmental Sustainability		√	
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People	√		

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

Introduction

1 Construction began on Dunes Splash World in late 2005 and works where programmed to be completed in time for the new facility to open in the spring of 2007. However, due to construction issues the opening was delayed until 30th June 2007.

2 Splashworld is an important regeneration project for the resort of Southport, which as well as creating a new leisure facility for visitors and residents, was projected to attract some 200,000 new visitors. This would result in increased visitor spend and an estimated 137 new jobs in both the facility itself and the wider visitor economy. The importance of Splash World took on a new significance following the closure of the Pleasureland Complex.

3 A Business Plan for the operation of Splash World was developed in 2003/04 by external consultants, which related to the operation of the whole facility campus, thereby combining the facilities at both Dunes Leisure Centre and Splash World for budgetary purposes. This Plan proposed that the additional income generated by the new facilities might in fact equal the suggested additional expenditure requirements. As such, it was reported that the new facilities should require no additional revenue support from the Council, although it was acknowledged that there would be some short term costs while the new facility was constructed and became fully operational.

4 Industry experts acknowledge that some 65 – 70% of annual income is taken in the five months from April to August each year. The delays in completion and subsequent handover of Splash World severely limited income generating potential for 2007/08. This delay was further compounded by a number of major equipment failures resulting in a number of temporary income losses to the Council. The overall effect of this was a £257,000 shortfall on budget. This was reported to Cabinet on 13th December 2007, who agreed a supplementary estimate of £257,000 for the financial year 2007/08.

5 In order to judge the financial accuracy of the consultants Business Plan, and also to assess the longer term impact of the new facilities upon the revenue budget requirement for the campus, Cabinet requested a report be produced after a full calendar year of operation, covering the period from opening on 1st July 2007 to 30th June 2008. This was reported to Cabinet in September 2008 and showed a £341,041 shortfall on budget.

6 A further report was requested giving details of the full financial year of operation for the period April 1st 2008 to March 31st 2009. The information contained in this report covers the main income and expenditure items and provides a general summary of the first full financial year of operation.

First Full Financial Year of Operation – Key Units Performance

Leisure Pool Income

7 Splash World has continued to be tremendously popular since opening and throughout the first full financial year of operation. In total there were over 214,000 visits to the Splash World facilities, equalling the predicted usage patterns contained within the Business Plan. There were 60,000 adult visits and 140,000 junior visits. Over 8,000 children attended birthday parties at Splash World, and a number of ‘special sessions’, such as ‘Youth Nights’, ‘Bands Nights’ and ‘Quiet Nights’ have generated an additional 6,000 visits.

8 The Business Plan produced for Splash World indicated that the facility could generate £798,000 income during the first year of operation. Despite a number of mechanical and electrical problems, the facility has continued to operate beyond expectations and generated £832,000 net income during the first full financial year of operation from 1st April 2008 to 31st March 2009.

9 Whilst this is a tremendous achievement, it should be noted that it might well be difficult to maintain this level of attendance and income in coming years. Within the leisure industry it is noted that there is always a 'honeymoon effect' in facilities such as Splash World, and the Business Plan itself predicted a fall in income from the second year of operation onwards. This fall in income continues until year six when, following a refurbishment, the income increases for the following year, and then begins a decreasing cycle again until the next refurbishment. The issue of Increasing Annual Revenue Deficit is covered later in the report.

Staffing

10 Upon opening, there was a requirement for a significant increase in the existing number of staff at Dunes Leisure Centre to cover the operation of Splash World. Historical usage data is now available and rotas have been amended to reflect actual usage patterns, coupled with an increased knowledge of the operational requirements of a facility such as Splash World. In total, 18 new full and part time posts have been established, including 12 Leisure Attendants, 3 Receptionists, 2 Cleaners and 1 Technician. In addition, some existing staff at Dunes Leisure Centre have had their contracted hours extended. Management duties within the Sport & Recreation Section have also been re-aligned to meet the additional demands of such a facility.

11 Staffing requirements obviously increase during the period of peak demand from April to September. During school holiday periods the facility is open for 50 hours per week. From September to March the requirement decreases as the facility reverts to a winter opening programme of 18 hours per week.

12 The Business Plan produced for Splash World had indicated that additional staffing expenditure of *£357,000* would be required in the first year of operation. However, since opening, a number of risk assessments have been undertaken which have led management to question the 'ideological' view on staffing reported in the Business Plan. For example, it was originally expected that the flume and tyre rides would be 'self policing', hence the installation of an automated 'stop/go' system. In practice there has been a requirement to staff these areas during opening hours to ensure the safety of customers, to prevent bullying and horseplay, and to ensure that the facilities are used correctly. This type of decision obviously requires additional staffing resources.

13 In addition, no pay award increases were factored into the original Business Plan, and in the five years since the development of the plan, the staffing budget, even at the underestimated sum within the Business Plan of £357,000, would have increased by over £85k with pay awards.

14 The total cost of staffing at Dunes Splash World for the period April 2008 to March 2009 was *£920,000*, a reduction of some £30,000 from the staffing costs for the first calendar year of operation.

Catering

15 The operation of the poolside cafeteria was subject to a tendering exercise in January 2007. The initial tender was offered for the period from facility opening in July 2007 until March 31st 2008. This limited timescale allowed management to monitor usage and sales through the cafeteria during the first months of operation. Based upon feedback from customers, and in consultation with our catering partners, the contract was extended for another year to cover the period April 2008 to March 2009.

16 In the first financial year of operation, for the period April 2008 to March 2009, sales through the cafeteria generated £148,214 of income, which the Council has received £20,750 by way of income share. The Business Plan produced for Splash World had indicated an expected income to the Council of £24,000 in the first year of operation.

Fitness Suite

17 Officer's recommendation that the Council outsource the operation of the fitness suite and classes in the activity studio was approved; a tendering exercise was undertaken in January 2007. The conditions of the tender award are such that the Council receives a rental payment of £33,600 per year for use of the facility. In addition the Council receives 25% of the income generated via the Fitness Suite. The Council therefore incurs no staffing costs or equipment leasing costs for this element of the business.

18 In the first financial year of operation, the Fitness Suite operation exceed the business plan by generating an income share to the Council of £119,290, made up of £33,600 revenue from the facility usage charge and £85,690 from the income share arrangement.

Utilities

19 The business plan indicated that gas, electricity and water for Splash World would cost £199,000 during the first year of operation. This cost included the requirements for Dunes Leisure Centre due to the combined heating, power and water systems between the facilities. As Members are aware the costs of gas and electricity have risen disproportionately since the Plan was developed. Table 1 below shows the expenditure on utilities during the first financial year of operation.

Table 1

	Consultants 'Notional' Business Plan Budget (Dunes & Splash World)	Combined Budget (Dunes & Splash World) 1st April 2008 to 31st March 2009	Actual Expenditure (Dunes & Splash World) 1st April 2008 to 31st March 2009	Variance to Sefton Council Budget
	£'000	£'000	£'000	£'000
Gas	83	120	219	99
Electricity	70	100	217	117
Water	46	50	64	14
Solid Fuel	0	40	23	(17)
TOTALS	**199**	**310**	**523**	**213**

20 The opening of Splash World has obviously significantly increased the demand for water, heating and power. Measures continue to be investigated and taken to reduce utility consumption to an absolute minimum. However, the increase in utility costs to the Council, including the 35% increase in the cost of gas during the last financial year, effectively means that any savings in usage are negated by the increasing cost for the remaining usage.

21 It should also be noted that since the Business Plan was produced the inflationary allowance for utility costs has been 1%, the amount agreed by Cabinet for non-priority services. It is envisaged that the reduced hours during the winter period, coupled with continuing operational adjustments, will help reduce the overspend on utilities, but the costs of utility provision continues to significantly exceed the budget provided.

22 The cost of the additional demands of utilities within Splash World have been included within the Council's MTFP as reported to Cabinet on 3 December 2009. This is also referred to in the MTFP update report elsewhere on this agenda.

NNDR Payment

23 The NNDR payment for Dunes Leisure Centre in 2006/07 was £74,700. Based on this assessment, it was expected that the NNDR for the new Dunes Splash World facility would not exceed £150,000. However, in 2007/08 the NNDR payment was £175,143, and for 2008/09 the payment had risen to £212,520. This has resulted in an additional cost of £62,520 against the budget proposed within the Business Plan, and an additional £121,370 against the Dunes NNDR budget of £91,150 for 2008/09.

National Benchmarking Recognition

24 Each year a wide range of information is submitted to The Association of Public Service Excellence (APSE) from all Leisure Centres in Sefton for the purpose of benchmarking our facilities, services and operational practices against similar facilities across the country. In December 2008 Sefton Council won 'The Best Performing Sports and Leisure Facility Management Award' for Dunes Splash World. Whilst all of the Leisure Centres in Sefton featured in the top percentile for each of

their ‘family groups’, Dunes Splash World was singled out as ‘Overall Winner’ due to the impressive financial and operational performance over the past year.

25 In December 2009 Dunes Splash World, again won, the APSE ‘Best Performing Sports and Leisure Facility Management Award’. Whilst this award does not negate the additional financial support required for the facility on an ongoing basis, it does serve to highlight the obvious discrepancies that existed in the original Business Plan produced by the external consultants.

26 Splash World is now viewed as an example of best practice on a national level, and continues to be operated to the exacting standards required to achieve such status. Dunes Splash World is the first and only local authority managed facility ever to win the award. This externally validated process demonstrates that expenditure is rigorously controlled and income maximised wherever possible. Expenditure at Splash World is therefore seen to be highly comparable with other such facilities from data submitted from hundreds of facilities and operators across the country.

27 A straightforward combination of increased utility and NNDR costs have resulted in the overspend identified in this report. The Leisure Services Department has struggled to cover this shortfall over the past two years, and this has detracted from the outstanding success received for Sefton Council by the receipt of the ‘Best Performer Award’ in 2008 and 2009.

Financial Implications

28 Cabinet will be aware that no additional revenue support has been provided to operate the new Splash World facilities. The Business Plan developed for the new site, including the existing Dunes Leisure Centre, indicated that during the first full year of operation the revenue support required for the combined Dunes Splash World facilities might not necessarily have needed to be increased. However this has not been the case.

29 As indicated in paragraph 20, additional utility costs of some £213,000 coupled with an additional £122,000 of NNDR costs have contributed significantly to the net £369,000 cost of the centre’s operations in 2008/9.

30 Owing to better financial performance across all the other Leisure Centres in Sefton, all but £252,000 of the £369,000 net cost was covered in 2008/09. However, this level of financial support from other sites cannot be guaranteed in the future.

31 The financial summary for the first financial year of operation at Splash World is at Table 2 as follows:

Table 2

Category	Dunes & Splash World Operational Budget - period 1st April 2008 to 31st March 2009	Actual Expenditure Dunes & Splash World - period 1st April 2008 to 31st March 2009	Variance to Budget
	£'000	£'000	£'000
Employees	929	920	(9)
Premises incl. Utilities and NNDR	451	814	363
Supplies & Services (Equipment, Vending, Marketing)	149	153	4
TOTAL	**1,529**	**1,887**	**358**
Income	**-1,350**	**-1,339**	**11**
NET DEFICIT	**£179**	**£548**	**£369**

Increasing Annual Revenue Deficit

32 The Business Plan produced for Splash World had indicated that the facility could generate £798,000 income during the first year of operation. In each subsequent year from the second to the fifth year of operation, income had been predicted to fall by 7-10% per year. This fall in income and attendances is in common with the income profiles for such facilities in the private sector. Income was then predicted to rise in year six after a planned refurbishment programme, to then decline again during years seven to ten. The operation of a Leisure Pool is different to that of a conventional "tank pool", by way of its financial modelling. Within a conventional pool the expectations are that income will rise year on year by an agreed percentage as individual users or clubs pay for activities. Within a Leisure Pool the financial modelling is based upon being able to "attract" repeat visits by offering an attraction that suits not only the day-tripper but also the local resident. The Consultants Business Plan accounts for income to decrease year on year after the initial "honeymoon period" up to an including the 5th year and increase again from year 6 following re-investment in the facility.

33 In order to gain the maximum benefits from Splash World, provision had been made for a "Sinking Fund" of £200,000 per annum to be set aside to allow the investment to take place, however this was withdrawn in 2008/9 as a budget saving on the basis that at year 5 (2013/14) prudential borrowing for up to £1 million of expenditure would be made available to cover the planned costs of refurbishment.

34 This type of financial modelling based on commercial risk is not something normally built into a Local Authorities budget planning. However, the Council's MTFP should be amended to include for Splashworld's financial modelling over the 10 years of the business plan.

Measures taken to reduce the Deficit

35 As previously identified a number of measures have been introduced to minimise the additional costs of operating Splashworld, which have included introducing "seasonal" opening times, and outsourcing catering and fitness suite operations. Other measures have been introduced, and continue to be introduced, including:

- Continually reviewing staffing shift patterns to reduce costs
- Reduction in the use of casual employees
- Increased use of the Bio Mass boiler
- Working with the Energy Conservation Team and Carbon Trust on methods to continually reduce energy consumption
- An appeal lodged against the charge for NNDR
- Reduce water pressure on rides to save energy on pumps and heating systems

Recommendations

1. Cabinet notes that the increased Splash World utility costs have been built in to the Council's MTFP from 2010/11.

2. Cabinet notes the improved performance of the Council's other Leisure Centres that allowed the additional costs of Dunes / Splash World to be partially offset in 2008/9, reducing the additional costs from £369,000 to £252,000.

3. The projected income reduction variations of 10% per annum arising out of the Business Plan be built into the Council's MTFP from 2010/11.

4. Cabinet notes the withdrawal of the sinking fund in 2008/9 as a budget saving, and the requirement to facilitate prudential borrowing for up to £1m in 2013/14 to undertake a refurbishment of Splash World.