MIDLANDS AQUATIC & RECREATION CENTRE

"BUILDING A HEALTHY COMMUNITY"

FEASIBILITY ANALYSIS

7 DECEMBER 2006

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CONSULTING GROUP

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1. Introduction

Farley consulting Group was commissioned by the Southern Midlands Council to analyse the feasibility of developing a community pool and hydrotherapy facility at Oatlands.

The feasibility analysis addresses a number of key questions:

- Is there a feasible level of demand for the service?
- Is it technically feasible?
- Are there feasible delivery and management options available? and
- Is it financially feasible?

These questions are interrelated and each subject to assumptions and decision criteria. For example a private provider may require such a facility to provide a 10% Return on Investment, where a community may consider a break-even financial result as an acceptable return.

This analysis is designed to determine whether the proposal is feasible and under what circumstances it may be so. An important supplementary question is "what are the implications of not proceeding?"

The report is structured to reflect the key questions and the outcome of the analysis in included in Section 6, Conclusions.

2. Demand for the Facility

This section of the report estimates the level of use and in combination with likely fees allows us to estimate the revenue level and profile.

An important part of this is to determine the use profile, who would use it when and what are their specific needs. By segmenting the client base into groups the sources of revenue and characteristics of the centre can be optimised.

The analysis identifies a number of distinct customer groups, including:

- The local community for recreational purposes;
- School children in learn to swim;
- Sport;
- Health services and wellbeing

The Oatlands Pool Committee conducted a survey during the summer of 2004/05 and found the following.

Use

- Highest use in the <15 yo group and 31 – 40 yo
- Used most days 31%
- 2 – 3 times weekly 21%
- Used weekly 15%
- Fortnightly 12%

Need

- Kiosk 81%
- Gym 79%
- Room & sports outlet 20% – 30%

The 1999 Sorell pool study identified a number of important characteristics.

- 64% were interested in recreational swimming
- 57% visited on weekdays, 27% on Saturday and 16% on Sunday
- 20% wanted lockers and learn to swim, 16% coffee/kiosk and 13% sauna/steam & coaching
- 10% wanted a gym
- Use frequency peaked between 3&6 pm

The Northern Tasmanian Regional Aquatic Strategy report (2002) identified use by age. The research found:

AGE	% WHO USE POOLS
15 -19 yo	76
30 - 39	56
40 - 49	51
20 -29	43
50 - 59	29
60 - 69	23
70 - 79	4
80 +	1

Use frequency was identified as

USE FREQUENCY	%
DAILY/2-6 TIMES PER WEEK	17
WEEKLY	9
FORTNIGHTLY	5
MONTHLY	6
LESS THAN MONTHLY	11
SUMMER ONLY	49

Future Pool Usage Trends based on improvements that would encourage use

IMPROVEMENT	% IDENTIFYING AS ATTRACTOR
RANGE OF INDOOR POOLS ON SITE	30
INDOOR RECREATION/LEISURE PLAY POOLS	16
WATERSLIDES	13
HEATING OUTDOOR POOLS	11
CLEANER, MORE HYGENIC POOLS	8
MORE SHADED AREAS	7

These attributes were modelled to forecast use if those characteristics were available

USE FREQUENCY	EXISTING %	FUTURE %
DAILY/WEEKLY	26	71
FORTNIGHTLY/ MONTHLY	11	22
LESS THAN MONTHLY	63	7

The forecast market segments for pool facilities were identified as

- Recreational/swimming for fun 55 - 65 % of users
- Fitness/lap swimming 25 - 30% of users
- Health/therapy 10 – 20% 0f users

2.1. The local community

The Oatlands Pool Community undertook a comprehensive survey with 84 respondents. Significant levels of support were identified, with some 80% of respondents indicating they would visit the centre on a bi-weekly basis. Applying this to the catchment population of approximately 500 (80% biweekly) in close proximity and 1500 (40% biweekly) outlying would translate into approximately 1,000 visits per fortnight. Conservatively halving this estimate and using an average price of $3.50 (50:50 Adult/children) this equates to $875 per week.

The use of the facility to host community and family events would create significant additional use and income.

2.2. School Children, Learn to Swim

The learn to swim program is an important program for pool operators. The program is contracted for a fixed period through the Department of Education. Pool operators are obligated to provide a safe facility and 2 AUST swim teachers per 30 students, lessons are of 45 minutes duration and the visit lasts an hour. Most centres provide 3-4 lessons per day.

The contract rates are between $4.10 and $4.90 per student per lesson, with the program conducted over a 10 week period.

Catchment primary schools are identified as Kempton (23), Bagdad (63) and Oatlands (138). If all of these schools are able to be attracted, plus 100 children in early childhood programs the revenue would be in the order of $14,000 per annum.

There is the potential to attract the Brighton School and other schools if the program is combined with activities at the Oatlands School and within the township, e.g. the mill upon restoration.

The potential to provide the service during winter and shoulder seasons could expand the market to include Campbell Town and Bothwell school children.

There is a significant level of interschool visitation for sporting and other activities. This can include interschool competition and as a result of this training for local students competing in these competitions elsewhere. If the facility was available, it would be possible to build a pool based recreational activity in the program.

One payment model approach would be for the local school and those within the school cluster to make an annual lump sum payment for use of the pool on an agreed basis. This could provide some certainty to the owner and increase young people's utilisation of the facility.

2.3. Sport

The opportunity for local and state-wide sports and sporting activities is significant but will require innovation in design and marketing. The advantage is that the pool costs can be bundled into registrations and other fees. At times this requires a reduction in per use income associated with each individual.

However if the centre can act as a hub, it provides a base from which a number of sporting activities can be conducted. This promotes further use of the pool. The approach could be most valuable for youth teams to foster increased participation, the centre then taking on a youth sport & recreation role.

The usage of the facility by state-wide organisations is potentially significant. The central location would support training activities for teams and organisations that operate on a state-wide basis. Organisations such as the Royal Life saving Society (RLSS) have expressed some interest, while there are examples of other such organisations that have abandoned Oatlands because of lack of facilities.

2.4. Health Services and Wellbeing

This is a potentially a significant market. The southern region is undersupplied with hydrotherapy facilities. While there are many pools, hydrotherapy pools require specific characteristics, they

must be very warm (around 33 degrees and equipped with hoist and rail facilities. The waiting lists are long.

Clients of the Midlands Multi Purpose Centre do not currently use hydro therapy due to lack of access, with the closest facilities in Hobart or Launceston. With a client base of around 500 people and 18 beds, they are supportive of a pool and hydro therapy facility in the Oatlands district. The centre has a physiotherapist working 2-3 days per week and 2 GPs, who would be likely to refer clients to the pool facility.

It is considered that there would be a strong, ongoing local demand of use.

The Community & Health Centre at Campbell Town currently have 4 clients travelling to the facility at Launceston (Kings Meadows) twice per week. They travel via community transport and as a result are limited to the days and times they are able to attend. They would support a pool and hydro therapy facility at Oatlands, due to the close proximity.

The Bridgewater centre employs 3 physiotherapists for 2 days per week.

The current southern community outreach program introduces some 375 new clients to hydrotherapy each year, the numbers are limited only because the department cannot gain additional access to hydrotherapy facilities. The department utilises group therapy sessions designed to meet the needs of specific customer groups:

- Back, neck and chronic pain patients who require fitness & movement activities (some MAIB, Workcover);
- Hip, knee, lower limb – post surgery, injury;

There is also a need for 1:1 activities for more severe cases. Most programs last for 6 weeks, however if the facility is available then the programs could be extended.

People who suffer complex disability (both adults and children with carers) have specific therapy needs and are often not distance sensitive. Specific interest groups include those with an interest in arthritis, head injury and veterans groups. Preliminary discussion has indicated such groups have an interest in occasional use. Development of appropriate service packages may increase the utilisation by such groups.

Many of these groups are funded to participate in such therapy. Organisations such as MAIB and Veterans Affairs fund patients at around $15 per half hour group session and $40 for 1:1 sessions.

The client catchment is potentially large and the potential patient use of a hydrotherapy centre is considered significant.. To capture this market there it would be critical to combine transport with the hydrotherapy service for some groups, through, for example, community transport. As many of the activities are group focused, this can be relatively efficient.

Specific programmes could be designed for this customer segment. 40 uses (4 groups)of the hydrotherapy facility per week at $15 would result in an annual income of $30,000 per annum. 20 high dependency patients would generate around $40,000 per annum in revenue.

In some instances, these groups can operate on a self contained basis. In effect they only hire the facility and don't require pool staff to be present.

2.5. Visitors

Other strategic initiatives at Oatlands are designed to increase the scale of visitation to Oatlands and the Southern Midlands. The goal is to both increase numbers and to increase length of stay.

While not central to this goal, the centre will, if it meets standards, add to the critical mass of facilities that support this objective.

It is interesting to note that the development of the aquatic and hydrotherapy facility could generate new visitor segments for Oatlands. As identified there is a strong potential to attract people the centre and then include other activities in Oatlands and towns en-route.

3 Technical Feasibility

Facility design is continuously progressing. Discussion with DoE staff indicates that pools configured in the same manner as those at George Town, Oceana and Friends School provide good community level facilities.

One option identified was for a square 8 lane pool (25m by 25 m) half of which is shallow and half semi deep. This allows the lanes to be placed in either direction, ensuring that adequate space is available for both learning and recreational activities.

It is technically feasible to build such a facility in a manner that optimises both construction and operational costs.

The facility described in this scenario reflects the following characteristics:

- Covered pool of 25m by 25 m with associated Sauna & small spa;
- Change rooms, administrative facilities & kiosk;
- Hydrotherapy pool of 10m by 10m; and
- Exercise room.

4. Operational Feasibility

The trend is towards multiple use facilities. This trend is designed to ensure that capital costs are optimised and that fixed costs of operations are spread across a range of functions. The fixed costs include expenditure on management, administration and energy.

Partnerships or management service contracts are also used to ensure that operations are conducted in a manner that reduces the costs to community purse.

For specialist use of the hydrotherapy pool, rental to the specialist or retention of a proportion of the fee will ensure that the challenge of employing a specialist therapist is not faced by Council.

While the pool may be financed by public funds the operations in full or part can be conducted by third parties, community or private.

Other potential operational models include a mix of facility hire and open access. For example, DHHS or schools from the cluster may have sole access at non peak times, reducing the operating costs associated with this revenue stream. At early morning periods, it may be that the local swimming club hires the facility, again taking responsibility for safety negating the need for staff.

For community use it is important that there is both a reasonable scope of opening hours and certainty in those hours. It would be necessary to enable open access 7 days per week and around 12 hours per day. This would require the equivalent of 1 fte staff with structured part-time and casual support.

5. Financial feasibility

The following financial analysis is based on the above utilisation rates and the full scenario described in (4) above. The revenue stream is based on conservative forecast results and reflects the performance of the Port Huon indoor facility. The costs are reflective of a number of pool facilities in Tasmania and interstate.

Capital costs reflect general Cordell benchmark rates and the cost of recently publicised pools constructed in Victorian Schools.

5.1. Revenue Stream

The revenue stream is provided on a market/service basis. It reflects discussions and preliminary estimations of the market. While considered conservative estimates, achievement of this level of market penetration will require active marketing.

Market Segment	Numbers	Session	Total
Recreational Pool			
Community	250pw	$3.50	45,750
School			
Recreation			8,000
Learn to swim	320pa		14,000
Sport			
Swim Train	30 pw	$12	18,000
Swim Events	2 p.a.	$1,500	3,000
Clubs	20 p.a.	$100	2,000
Events/Parties	15pa	$250	3,750
Wellbeing			
Classes	4 pw	$40	8,320
			102,820
Hydrotherapy Pool			
1 to 1 (rent pool)	20 pw	$10	9,600
Group	10 pw (8)	$8	30,720
			40,320
Exercise Room	7 pw	$25	9,100
Kiosk			32,000
			21,100
Total			184,240

The above revenue is based on a fee per use basis, the riskiest of revenue strategies. An alternative is the negotiation of a fixed annual use fee that provides particular organisation full access at particular times. There are two major opportunities for this form of contract, the Department of education and the Department of Health & Human Services. The aim should be to develop an equitable fixed arrangement with the agencies.

The revenue stream for the 1:1 work in the hydrotherapy pool is based on a proportion of the fee that a physio would charge a client for such personalised rehabilitation service. This model negates the need for SMC to access specialist staff.

Other smaller organisations with a likelihood to access the pool could include the community based interest groups such as those with a service focus on diabetes, head injury, residential care organisations etc.. With such contracts the client will often provide their specialist providers and supervisors. The contract fee would recognise the fixed costs associated with their use. While the DoE would have interest in the recreation pool, the special needs organisations would have interest in both pools, but particular the hydrotherapy pool.

5.2. Recurrent Costs

The following operating costs are drawn from pools operated by a number of councils and provide an indication of the level of cost for such facilities.

Southern Midlands Council currently provides a $45,000 contribution for the three month season.

The Port Huon Pool, a covered facility, has a revenue stream of around $70,000 and a direct cost of $145,000, of which $68,000 is classified as an employment cost.

The Southern Midlands facility, as a more modern facility should reduce some of the operational costs, however the hydrotherapy pool, being heated to 30c will also increase costs. It would be important to structure access to the hydrotherapy pool in a way that does not include employment costs.

Annual Forecast Recurrent Operational Costs

Fixed Costs	$
Energy	65,000
Disinfectant	4,000
Insurance	6,000
Communication	1,200
Manager	45,000
Maintenance	20,000
Materials & Admin	15,000
	156,200
Variable Costs	
P/T staff	60,000
Promotion	5,500
Kiosk	20,000
	85,500
Total Annual Recurrent Costs	241,700

Based on the above revenue and operational costs, the annual deficit would be $57,460. This does not make allowance for depreciation of the asset.

The contribution margin is 0.534, (the % of each dollar of revenue that contributes to covering the fixed costs) resulting in a break even revenue of $291,000.

5.3. Capital Investment

The capital costs for such facilities vary dramatically. A key point is that the standard of the facility and as a result the capital investment is critical in ensuring that demand is optimised to ensure viability against the criteria used by the investor.

There have been a number of pools recently constructed in Melbourne by the Social Infrastructure Trust and located in school grounds and available for use by the school. These 25m pools cost around $1.2m, with the investment recovered over 25 years by allowing the trust to operate the pool outside of school hours.

Discussion and the broad marketing strategies outlined above dictate a 25m square pool, a hydrotherapy pool, quality amenities and an open space. Based on basic construction benchmarks, the estimated cost (using the following areas and rates) is in the order of $2.5m - $2.7m, excluding property and other site works that can be amortised against both the aquatic facility and other facilities planned for the site.

Element	Area	Cost/m2	Total Cost
Pool 25 by 25 & Sauna/Spa			850000
Cover Building 35 by 35	735	750	551250
Reception/Kiosk & Change Rooms	250	1650	412500
Open Room	200	750	150000
Hydrotherapy pool 10 by 10			500000
Total			2463750
Contingency			246375
			2710125

6. Risk Assessment & Management

Table 6.1 below presents a preliminary assessment of the key risks to the business opportunity. A business risk is defined as the threat of an event or an action that will adversely affect the organisation viably achieving its objectives.

The focus is on those risks that are of more significance and is not to be regarded as exhaustive. The following broad risk categories have been used:

- *Financial* – e.g. Revenue generation and collection, Expenditure, Management reporting – accuracy of general ledger and Budgeting;
- *Management & marketing* – e.g. Legal and regulatory compliance, marketing & promotion, Business planning and management processes and reporting;
- *Information technology and management* – e.g. Reliance and reliability, & management – support, Disaster recovery and Records management;
- *Property and Infrastructure management*: e.g. User risk management, Asset management, Disaster recovery, Environmental management and Security;
- *External influences* – e.g. Access to fixed contract and additional program funding, meeting user target numbers, Public / community relations and Alliances; and
- *Human resource and risk management* – e.g. Insurance, Human resource management, Work place Health and safety and Recruitment and termination.

Other key points to note are:

Consequence is the assessment of how significantly exposure to a particular risk could impact on the organisation;

Likelihood is the assessment of how likely it is that the organisation could be exposed to the risk taking into account the prospective frequency of occurrence; and

Gross risk rating is a function of the consequence and likelihood ratings. Adopted from AS/NZ 4360 Risk Management Standard.

This analysis determines and rates gross risks by using the product of consequence and likelihood rankings and is demonstrated in the table below.

	Consequences				
Likelihood	*Insignificant*	*Minor*	*Moderate*	*Major*	*Catastrophic*
Almost certain	High	High	Extreme	Extreme	Extreme
Likely	Moderate	High	High	Extreme	Extreme
Possible	Low	Moderate	High	Extreme	Extreme
Unlikely	Low	Low	Moderate	High	Extreme
Rare	Low	Low	Moderate	High	High

Table 6.1. Preliminary Risk Assessment & Broad Mitigating Strategies

Risk source	*Consequence*	*Likelihood*	*Gross risk*	*Mitigating Strategies*
Financial				
User numbers are not met	Major	Possible	Extreme	Forward Marketing Agreements with agencies to provide broad access and organisations for out of hours access
Do not attract new programs	Major	Possible	Extreme	Agency, community, sporting and not for profit group relationship & keep aware Maintain policy watch & analysis
Construction cost blow-out	Major	Unlikely	High	Design to price Fixed price contract Community Involvement
Management & marketing				
SMC fails to develop an appropriate management model for the Centre business model	Moderate	Unlikely	Moderate	Prepare detailed business, organisation plan and business management system
Failure to meet operating standards	Moderate	Unlikely	Moderate	Build into design, management and operating procedures. Training
Information Technology				
IT systems and records are not effective	Minor	Unlikely	Low	Build to reflect diverse business model and compliance requirements

Risk source	Consequence	Likelihood	Gross risk	Mitigating Strategies
Property and Infrastructure				
Programmed maintenance and hazard assessment	Major	Unlikely	High	Risk and property management procedures
Site Safety & Security	Moderate	Possible	High	Build into design, management and operating procedures. Training
External Relations				
Failure to achieve agency support	Major	Unlikely	High	Relationship with Education and DHHS as part of further development and operations (partners).
Incident in centre	Moderate	Unlikely	Moderate	Management & Operating procedures, training
Human Resources				
Availability and quality of staff	Moderate	Unlikely	Moderate	Early start to training Conditions for p/t staff
High staff turnover	Moderate	Unlikely	Moderate	Direct link to training provision

It should be noted that this plan has not considered net risks, which is an assessment of the residual risks after risk control mitigation strategies are in place. This assessment cannot be performed until the business is operating and the systems have been established to deal with the risks.

It would also be beneficial to undertake a complete business risk evaluation once the new business model is operational. This would involve a more detailed analysis along the lines shown above and culminate in Risk Records with appropriate mitigating strategies

7. Benefit/Cost and Conclusions

7.1. Social and Economic Benefit

The benefit/cost approach extends the financial perspective to consider broader direct and indirect benefits, e.g. youth benefits, improved rehabilitation etc.. This approach can be used to engage agencies in both capital and ongoing contract involvement

Consideration of benefit/cost issues reflect the strategic issues facing the area. While the Southern Midlands Aquatic Centre can be viewed as a sports facility, the facility can make a significant social and environmental contribution to the Southern Midlands Community.

An overview of these is provided in the following table.

Client Group	Social Benefit	Economic Benefit
Young people	• Additional recreational option during school and out of school hours • Competition Training • Recognition of health and career potential in health	• Employment
General community	• Additional recreation option • Additional Venue • Increase attractiveness of Oatlands by improved range of service • Improved rehabilitation services	• New income or retained income • Employment • Improved rehabilitation and reduction in disability adjusted costs
Aged people	• Improved wellbeing and preventative healthcare option	• Potential to reduce disability adjusted costs of care • New sources of income to the region • Employment opportunities
Special Needs	• Improved wellbeing and preventative healthcare option • Improved esteem	• Potential to reduce disability adjusted costs of care • New sources of income to the region • Employment opportunities
Visitors	• Increase recreation options	• Increased expenditure

7.2. Conclusions

There is significant existing and potential demand for the facilities proposed within the Southern Midlands Aquatic Centre. The realisation of this demand will be dependent upon both quality of the facility and its service as well as active marketing to the community and special interest groups.

The Southern Midlands Aquatic Centre can make an important contribution to the Southern Midlands Community.

While the centre will require ongoing direct funding to cover an operational deficit, the level of deficit can be limited by entering into partnerships and contracts with key stakeholders such as the Department of Education and the Department of Health & Human Services.

In terms of feasibility and risk, the following summarises the findings of this report.

Market and Revenue Source Feasibility

There is a significant level of demand for a high quality facility. By combining a recreational pool and complementary facilities with a hydrotherapy pool, the target market is diverse and in significant segments carries with it funding to pay for the service. In both preventative and rehabilitation services, a significant part of this potential revenue stream may be based on a fixed annual fee, rather than on a per person use basis.

There will be a need to establish preliminary agreements with agencies and specific interest groups as part of the next stage of development to reduce risk.

Based on previous community research and that from other facilities, community use can also be significant. Added to this casual recreational use is that of social and sporting organisations. Combining this with commercial fitness initiatives, considerable use can be generated.

School utilisation results from both recreational activity and from learn to swim programs.

No single group will provide the necessary scale to consider building such a facility. It will be important to attract diverse groups to the centre, this will require intelligent marketing supported with targeted and active marketing and promotion.

Technical Attributes and Costs

The centre reflects the mix of facilities identified within recent research as necessary attractors, indoor pool, sauna, spa and exercise area plus the hydrotherapy pool. It is a multi-purpose facility.

The cost are broadly based on both Cordell benchmarks and on the cost of basic 25 m pools recently constructed throughout Melbourne. The estimate of around $2.75m does not include land or site works.

It is feasible to build such a facility, achieve maximum use of change room facilities, to reduce staffing costs through careful facility layout and to optimise ongoing energy costs.

The design must offer the necessary mix of attractive facility, achievable capital cost and optimised operational costs. This is a challenging commission.

Operational Feasibility

With the two levels of operation it is important to develop and operational model that provides the necessary level of service, manages risk and supports business development. It is important that SMC limits its employment to recreational and wellbeing staff and ensures it is not responsible for the employment of health professionals.

Subject to demonstrated capability, specific interest groups may be able to hire the facility without support staff.

Effective and efficient management and operating procedures will be necessary to support this business model.

Active marketing will be necessary to ensure the recurrent costs associated with operations are offset by strong revenue streams.

Financial Feasibility

The facility will not easily, if ever, achieve a break-even financial position. The level of deficit funding necessary to operate the facility is, relative to the existing levels of direct funding and benefit, reflects significant community value.

Cost of Not Proceeding

A decision not to proceed with the proposal is not costless to the Southern Midlands Council. The current pool is around 50 years old, is increasingly difficult and costly to maintain. As a result of its age, the facility does not comply, or will be costly to ensure it does, with a range of compliance requirements.

The pool's location within the heritage building is likely to become increasingly problematic for both ongoing operations and any modifications.

Most of the benefits associated with the development of the aquatic and recreation facility are not able to be realised from the existing pool.