

## **DEVELOPMENT OF STEAM / SAUNA CABIN / RELAXATION AREA AT LYMINGTON HEALTH & LEISURE CENTRE**

### **1. INTRODUCTION**

- 1.1 Currently all of the Council's Health & Leisure Centres except Lymington have sauna &/or steam cabins which are popular with members.
- 1.2 Lymington Health & Leisure Centre has a good range of high quality facilities but does not currently offer any relaxation facilities whereas all of its main competitors, Carey's Manor, Elmers Court, Balmer Lawn & Shorefields do, and in this respect have an advantage in the competition for members in the local market.
- 1.3 Although Lymington has an expanding customer base and has been relatively successful in competing with these private facilities the lack of steam sauna is seen as a weakness which needs to be addressed if the centre is to sustain and improve its competitiveness in the market and in membership sales and retention.

### **2. PROPOSAL**

- 2.1 This is a proposal to build separate steam and sauna cabins with an adjacent relaxation area. The location would be on poolside next to the learner pool where the current poolside store and first aid room is situated.
- 2.2 The first aid store would be relocated to a section of the social area which is adjacent to the main pool. This would improve the effectiveness of the first aid room as it would have easy access from both the dry and wet side facilities.
- 2.3 It is proposed the work would be completed during the pool side closure for works the bi-flow channels and changing room refurbishment (July – September 2010). This would minimise the disruption to the public and provide real added value on re-opening after an extended closure. Completing these projects in conjunction with each other will also minimise income losses during construction.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The following section summarises the projected expenditure associated with the steam sauna facility.
  - 3.1.1 Capital Costs
    - The capital purchase price of the steam/sauna will be £25,000
    - The building costs of the steam sauna are £25,000
    - There is an additional cost of £7,000 to relocate the first aid room
    - Total capital costs 2010/11 = £ 57,000
  - 3.1.2 This costs and income streams associated with this scheme are being looked at in the context of a 10 year useful life expectancy. It is anticipated that the steam kettle and the sauna controls, at a cost of £15,000, would need replacing after 5 years. The total capital cost over the 10 year life of the project therefore is £72,000 (£57,000 + £15,000).

- 3.1.3 Depreciation charges;
- There would be revenue depreciation charges of:
    - £1,000 per annum for the cabin ( £10,000 cost over 10 years)
    - £3,000 per annum for the kettle and controls (£15,000 x 2 = £30,000) cost over 10 years
    - £2,500 per annum for the building works (£25,000 cost over 10 years)
    - The £7,000 required to relocate the first aid room would be written off to revenue in the first year
  - Total depreciation charges = £6,500 per annum
- 3.1.4 Electricity costs have been based on 14 hours of use per day, 7 days per week. However, in the current volatile market of utility charges these costs may change dramatically.
- 3.1.5 Cleaning of the new facility would be absorbed as part of an existing cleaning regime, resulting in no additional cost. The new facility would be marketed to ensure current non centre users are made aware of its existence. This marketing expense would also be covered by existing budgets.
- 3.1.6 The Council will incur an interest charge due to the spending of the £57,000 in 2010/11 and £15,000 in 2015/16. Taking current interest rates into account, the equivalent charge associated with spending this capital equates to approximately £2,700 in a full year.

### **Income Analysis**

- 3.2 The existing Steam/Sauna facilities at Applemore & Totton are used by both casual pay and play users and Fitness Direct members and income from the proposed Steam/Sauna development will come from both groups.
- 3.3 The business plan originally presented to the Asset Management Group has been reviewed and the initial income projections for casual use have been assessed as overly optimistic and it is also felt that membership sales will be across a range of package prices. The revised income projections and the basis for their calculation are as follows.
- 3.3.1 Casual pay and play - Based on this being a similar product to that offered at Totton, the charge for use of the facility (which includes a swim) will be the same at £4.85. There is currently on average 40 pay and play uses of the Totton sauna / steam per week. With active Marketing of the new facility, and taking into account the different user profile and catchment areas (Lymington has over 200 senior members whereas Totton has only 70), it is projected that usage at Lymington will reach at least 60 per week generating approximately £12,800 per annum net of VAT.
- 3.3.2 New/Existing members – Member usage of the existing Steam Sauna facilities accounts for approximately 80% of overall usage (160 visits per week at Totton). Additionally an analysis of the welcome questionnaires completed by prospective members at Lymington shows that 26% were interested in using steam/sauna facilities and the clear view of the Customer Advisors (on site membership sales staff) is that the new facility will help attract new members to the centre, who may have otherwise joined other health clubs locally which offer this facility, and also to retain existing members.

3.3.3 On this basis an additional 25 membership sales (approx. 2.7% of total memberships) is felt to be a reasonable expectation, and given that the current average yield per member is approximately £400 this would generate £8,500 per annum net of VAT.

3.4 It is anticipated the facility would be completed mid September so the 2010/11 figures are half year projections;

<b><u>SUMMARY FINANCIAL IMPLICATIONS</u></b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
<b>INCOME</b>				
Pay & Play	(£6,400)	(£12,800)		
New members	(£3,200)	(£8,500)		
<b>Sub Total Income</b>	<b>(£9,600)</b>	<b>(£21,300)</b>		
<b>EXPENDITURE</b>				
Electricity	£3,000	£6,000		
Service / Maintenance Costs		£300		
Depreciation Charges	£3,250	£6,500		
Capital Charge	£7,000	£0		
<b>Sub Total Expenditure</b>	<b>£13,250</b>	<b>£12,800</b>		
<b>Net Portfolio Position</b>	<b>£3,650</b>	<b>(£8,500)</b>	—————▶	
<b>Interest Charge</b>	<b>£1,200</b>	<b>£2,700</b>	—————▶	

3.4.1 In summary, taking all capital charges (i.e. 'paying back' of the £72,000 over 10 years) into account, it is estimated that the facility will make an annual surplus of £8,500 from 2011/12 onwards. The interest charge is shown below the line as this 'expense' is shown for information only.

#### **4. MONITORING & REVIEW;**

4.1 Although the income projections in section 3 are based on statistical analysis of use at the other Centres, expressed customer preferences at Lymington and the views of our Customer Advisors, they remain projections and should the scheme proceed the financial performance of the Steam Sauna will be closely monitored through an Analysis of;

- Income received through the till.
- Additional membership sales.
- Improved retention rates.

4.2 A full review of the performance of the Sauna Steam development should the scheme proceed will take place after 6 months of operation and should they so wish the Asset Management Board could receive a formal report on that performance.

#### **5. ASSET MANAGEMENT GROUP COMMENTS**

5.1 Overall Asset Management Group are supportive of the proposal as it would enhance the total package of services at the Centre and based on projected use could be provided at no cost over the life of the installation.

5.2 They were also pleased to note the monitoring and review process which was essential and would give the opportunity to review the performance of the project at an early stage.

## **6. ENVIRONMENT IMPLICATIONS**

- 6.1 The proposed installation will lead to an increase in the Centre's consumption of electricity.

## **7. CRIME AND DISORDER IMPLICATIONS**

- 7.1 There are no crime and disorder implications arising from this report.

## **8. EQUALITY AND DIVERSITY IMPLICATIONS**

- 8.1 There are no equality and diversity implications arising from this report.

## **9. PORTFOLIO HOLDER COMMENTS**

- 9.1 The installation of the proposed Sauna/Steam cabins and relaxation area will provide the Centre with a valuable additional facility which clearly fits the Centres user profile. It will also enable the Centre to remain fully competitive in the local market and provide a further aid to customer sales and retention.

## **10. RECOMMENDATIONS**

- 10.1 To accept the business case for relocating the existing first aid room and build a new steam and sauna cabin with associated relaxation area, approving the following financial implications;
- £57,000 capital supplementary estimate in 2010/11
  - £15,000 capital requirement in 2015/16
  - Note the revenue implications as noted within table 3.4

### **For Further Information Please Contact;**

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### **Background Papers;**

None