APPENDIX 4

PRESTATYN NOVA CENTRE BUSINESS CASE – Financial Statement

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Background

A project of this scale and nature is relatively “unknown” from a DCC perspective and as such it was agreed in conjunction with our strategic leisure development partner, Alliance Leisure (AL), to commission RPT Consulting to undertake a feasibility study on the redevelopment options for the Prestatyn Nova Centre.

RPT presented a series of options and DCC’s preferred one was the partial demolition of the existing refurbishment at an indicative cost of circa £3.6m. Leading on from this RPT produced a 5 year cost model based on a number of business assumptions.

Our work

Alongside the budget profile work commissioned by RPT Consulting, one of our own Senior Finance & Assurance Officers (SFAO) has spent a considerable amount of time, together with the CML’s Commercial Lead Officer, costing the projected staffing structure and other operating costs they believe would be needed for the proposed new development. This work has been based upon current market trends obtained from the Council’s existing commercial leisure sites and extrapolating expenditure and income data on each activity as a comparator. The analysis also utilised the expertise of the Commercial Leisure Lead Officer who has several years’ experience of operating similar sites in the private sector to that proposed at the redeveloped Nova Centre.

The SFAO and her Finance & Assurance Manager then compared the figures provided by RPT Consulting with those produced in-house and carried out a detailed analysis of any significant variances between both sets of data. From a Council perspective the concern was that some expenditure figures included by RPT (specifically relating to employee and premises costs) were understated from our own experience of the existing Council leisure sites. In addition there was worry that RPT had based their forecasts on the achievement of relatively high income levels for some of the activities. This in itself is not a criticism but we felt that we needed to take a more pragmatic view to protect the Council’s interests.

Food and Beverage

Alliance Leisure (AL) and RPT Consulting have based their forecasts on the food and beverage (F&B) functions being provided in-house and they believe that considerable net profit (after accounting for cost of sales) can be achieved, ranging from circa £100K in Year 2 and rising to nearly £170K by Year 5. However the DCC budget forecasts are based on the F&B functions being leased out to 3rd parties at the appropriate tenancy/franchise rates. Our view is that this reduces the risks associated with operating these functions ourselves since presently the Council has little in-house expertise in this fairly specialised market. However the advice given to us from AL is that they feel strongly that there is significant net profit to be gained by the Council carrying out the services themselves (per the profit figures highlighted above). Whilst we have no reason to doubt AL's stance we feel it sensible to minimise any potential liability to the Council and have therefore based our forecasts on the "risk averse" option by leasing/franchising out the F&B functions. By taking this option we are guaranteed a fixed net rental/leasing income without the risk of incurring any of the associated variable costs.

Latent Demand analysis

The Leisure Database Company (LDB) has produced a latent demand analysis to show the potential number of gym members that could be achieved for a refurbished gym facility at the Nova Centre. These figures are arrived at by comparing a wide range of relevant population data (age profiling, gender mix, travel distance etc) and the total figure arrived at by the analysis is 1,225 potential members.

DCC has chosen not to go with this figure as the risks associated with reaching these numbers are too great. We have used our own statistical data associated with gym memberships at the Council's existing leisure sites and reduced the latent demand figures to what we feel is an acceptable and sensible level. Our budget forecasts assume total gym memberships of 761 in Year 1 (only 62% of the latent demand total); with this figure rising to 908 by Year 5 (still only 74% of the total latent demand figure).

Commercial Risk

Clearly in a venture of this kind there is a considerable commercial risk as the facility will depend almost entirely on the number of customers and memberships it can attract. There are also a number of other factors that will impact on visitor numbers such as the weather, seasonal demand, market competition etc. The budget forecasts included in the business case are based on the Council's experience of operating its other commercial leisure sites, but also making a "reasonable" assumption on those activities which are new to the Council e.g. play zone and the leasing/franchising of the food and beverage functions.

Mitigating the risks

Naturally there are considerable commercial risks associated with the new proposed Nova facility. However we feel that the financial numbers included in the business case are well reasoned, have been financially challenged and mitigate as best we can the Council's financial and reputational position. We feel that we have taken a reasonably conservative view in relation to membership numbers (at no stage forecasting more than 75% of the latent demand totals provided by the market experts) and we have also taken out the risk of the Council itself operating the food and beverage functions within the refurbished venue. The Council can of course take a different stance on the latter and opt to provide this service in-house, which might increase the risk but at the same time potentially provide significant opportunities to generate large net profits from day 1.