

# Launceston Aquatic Health and Fitness Business Plan

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For: Launceston City Council

Date: July 2012

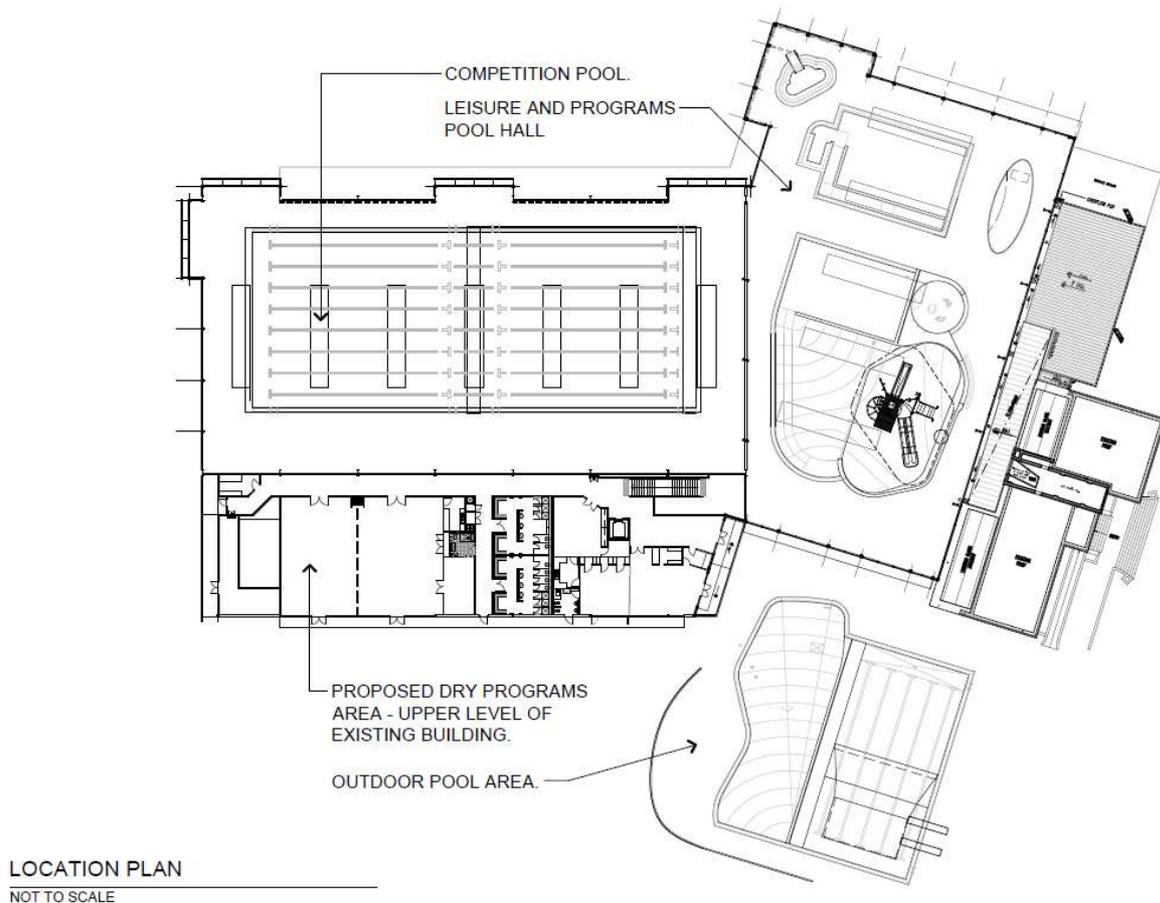
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# Executive Summary

## Introduction

Launceston Aquatic is a 26.3 million dollar facility with indoor and outdoor pools, a café and multiple dry program areas.



In 2010/2011 financial year Launceston Aquatic recorded 341,590 attendances. This was well above the Australian Centre for Recreation Management (CERM) median benchmark of 311,000 attendances for a 'Group 6' centre (Group 6 centres typically have indoor and outdoor pools and operate all year round). There were 35 Group 6 centres that participated in the most recent CERM benchmarking. Only five of these facilities do not offer Health and Fitness programs.

While attendances are above the industry median, the figures are short of the 400,000 target identified in the original centre feasibility study conducted by Simply Great Leisure (SGL). This initial study included Health and Fitness attendances which Launceston Aquatic has not been able to offer. The cost of operating the facility in 2010/2011 was 1.6 million dollars.

## Improving Financial Performance

In 2011, Aquatic Recreation Victoria (ARV) was commissioned to conduct a review on operations to identify strategies to reduce the operating cost of Launceston Aquatic. Three key strategies were identified:

1. Implement perpetual Swim School model and increase student enrolments
2. Install cogeneration plant to reduce power costs
3. Introduce Health and Fitness Programs in the under utilised dry program areas.

In December 2011, Council approved the implementation of the first two strategies. It was resolved that prior to the implementation of the third strategy, a comprehensive business plan and detailed design for a Health and Fitness centre be returned to council. The 'LA Fit Business Plan' has been written and developed to provide the information requested.

The Centre's operating cost for the 2012/13 financial year is expected to be less than 1 million dollars largely due to the implementation of the first two strategies. This is a \$600,000 improvement from the 2010/2011 financial year where the Centre's operating cost was \$1.6 million dollars.

With an expected surplus of \$200,000 per year generated from Health and Fitness programs (expected from year 4 of operation), the operating cost will be further reduced. Potential improvements from all 3 strategies will be in excess of \$800,000 per year.

In addition to the reduced operating costs, the attendances will also increase and eventually exceed the target identified in the original Launceston Aquatic business case.

<b>Projected Attendances with in-house Health and Fitness Programs</b>					
	Year 1	Year 2	Year 3	Year 4	Year 5
Health and Fitness Attendances	41,600	57,200	67,600	78,00	83,200
Total Centre Attendances including Health and Fitness attendances	401,600	417,200	427,600	438,00	443,000

## Growing the Health and Fitness Market

There is an understanding that during the initial Launceston Aquatic development application an undertaking was given that Health and Fitness programs would not be introduced at the Centre in the first two years of operation. Launceston Aquatic has been operating for three years and in that time the number of health and fitness providers has increased to more than 18 providers in the greater Launceston Region.

As a consequence of the existing high level of provision, the LA Fit Business Plan is for a modest sized health and fitness program. The Centre is not seeking to be a major player in the health and fitness market, but is seeking to capitalise on the unique facilities.

One of the main objectives of the LA Fit Business Plan is to increase the number of people participating in organised fitness activities.

This will be achieved by providing services and spaces that complement the existing health and fitness options already available in the community. Launceston Aquatic is, through its wet and dry design, able to provide services that are not offered in other health and fitness centres. This will enable the centre to focus on areas such as:

- rehabilitation,
- older adults and teenagers
- collaboration with professional practitioners, (physiotherapists, community groups and health focused organisations, ie. Active Launceston, Heart Foundation, Diabetes Australia)

### Why should Council enter the Health and Fitness Market

In the ARV Operational Review (2011), it was noted that based on the experience of other aquatic centres, there is a section of the community that is more comfortable using a council managed health and fitness centre. It is inevitable that there will be some recruitment of members from existing operators however if the Centre differentiates itself in the market, it will attract people who are looking for an alternative to what is currently available.

Advantages of a Council operated Health and Fitness Facility:

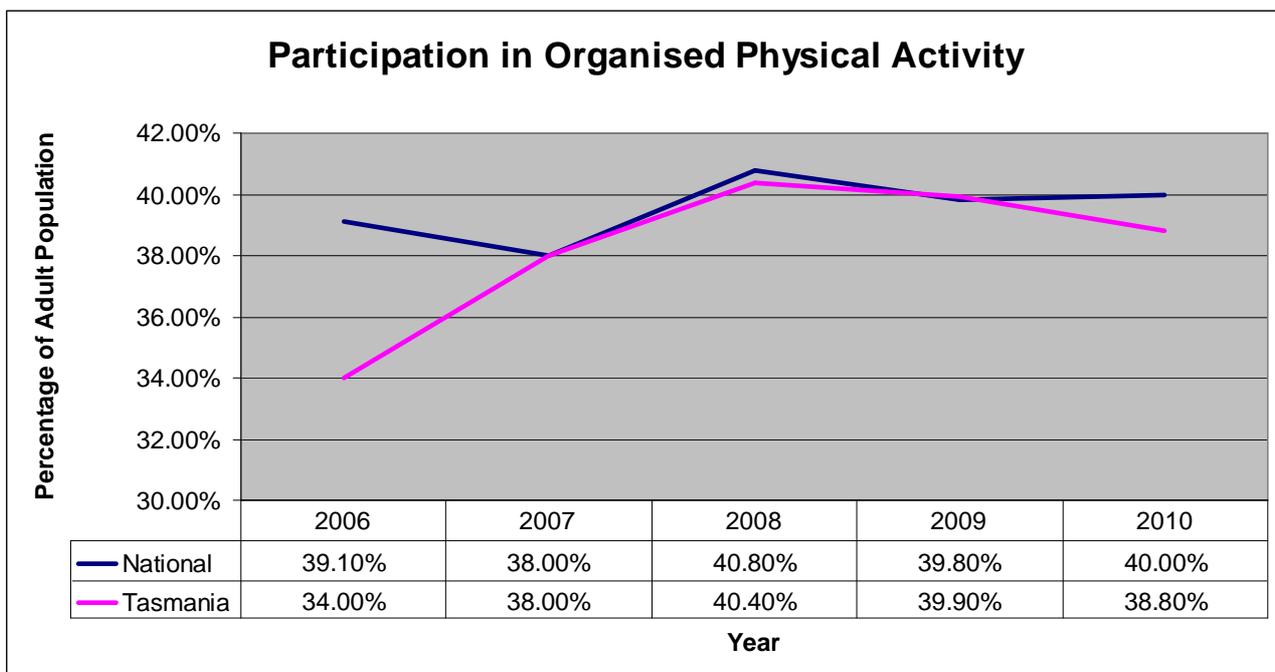
- Opportunity to achieve significant improvements in financial performance.
- Better health outcomes in the community through focus on increasing participation.
- Ability to utilise the Centre to help achieve outcomes identified in broader Council strategies and priorities.
- Additional secondary spend opportunities in the café and retail shop.

## Background

### Health and Fitness Activity

Each year the Australian Sports Commission conducts a study into the health and fitness activities of Australians. The Exercise, Recreation and Sport Survey (ERASS) has been running since 2000 and provides state by state and national statistics on participation levels.

The results from ERASS show that physical activity levels in Tasmania have increased since 2006 but is lower than the rest of Australia.

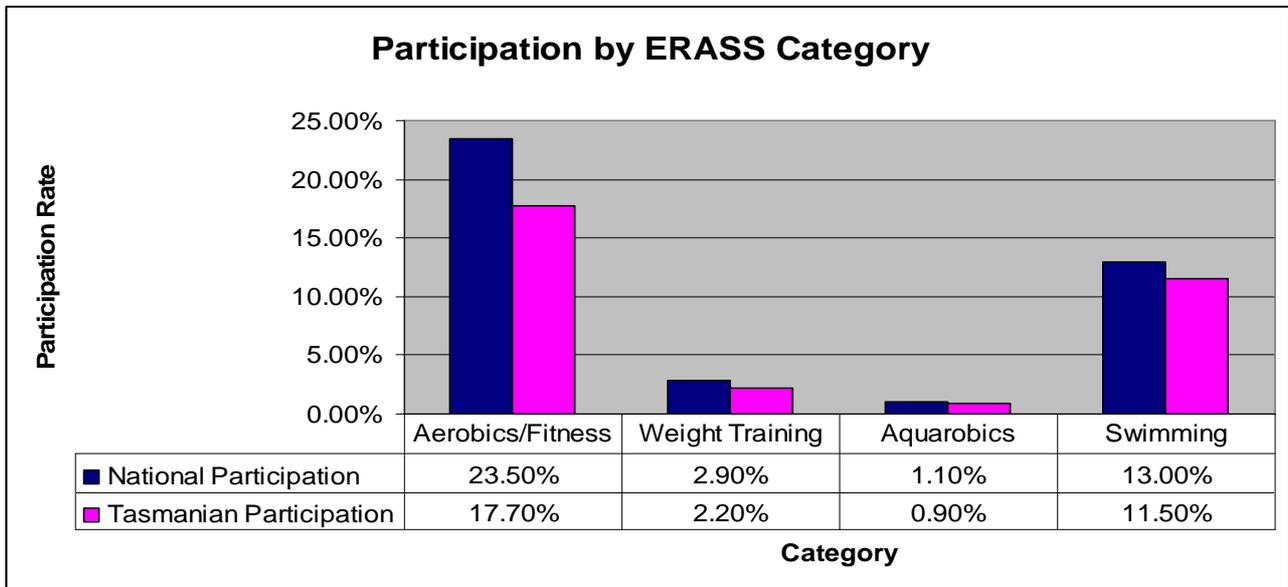


The Exercise Recreation and Sport Survey has also found that nationally since 2001:

- participation in swimming has decreased by 6%
- participation in health and fitness has increased by 110%

Again, in the ERASS results, Tasmanian participation is lower than the levels report in the rest of Australia.

It is important to note that the ERASS category for 'Aerobics / Fitness' includes both organised (where a fee is paid) and non-organised forms of fitness such as walking.



\*Aquarobics has a relative standard error of between 25% and 50%

### Health and Fitness Industry

Access Economics has published a report (commissioned by Fitness Australia) on the economic contribution of the Health and Fitness Industry (2009). The report supports the findings in the ERASS results showing that there has been strong growth in the fitness industry in the last decade. In the Access Economics report, growth has been estimated at 7% year on year between 2004/2005 and 2007/2008. The economic conditions have meant that growth has moderated with adult participation in health and fitness centres reported to be 7% in 2009. In their report, Access Economics considers 10% participation across the community as realistic (page iii).

### Market and Economic Snapshot:

The Launceston Health and Fitness market already supports a number of gymnasiums and there has been concern expressed by local operators on the potential impact on their businesses. market research conducted by Launceston Aquatic has shown that despite the number of health and fitness centres in Launceston there is room for Launceston Aquatic to also provide health and fitness programs.

As part of the business planning process, EMRS were commissioned to conduct market research. A survey was carried out in two formats: random telephone sample and online survey (including Centre members). The full survey results can be found in Attachment 4 of the LA Fit Business Plan.

The telephone research results reported that:

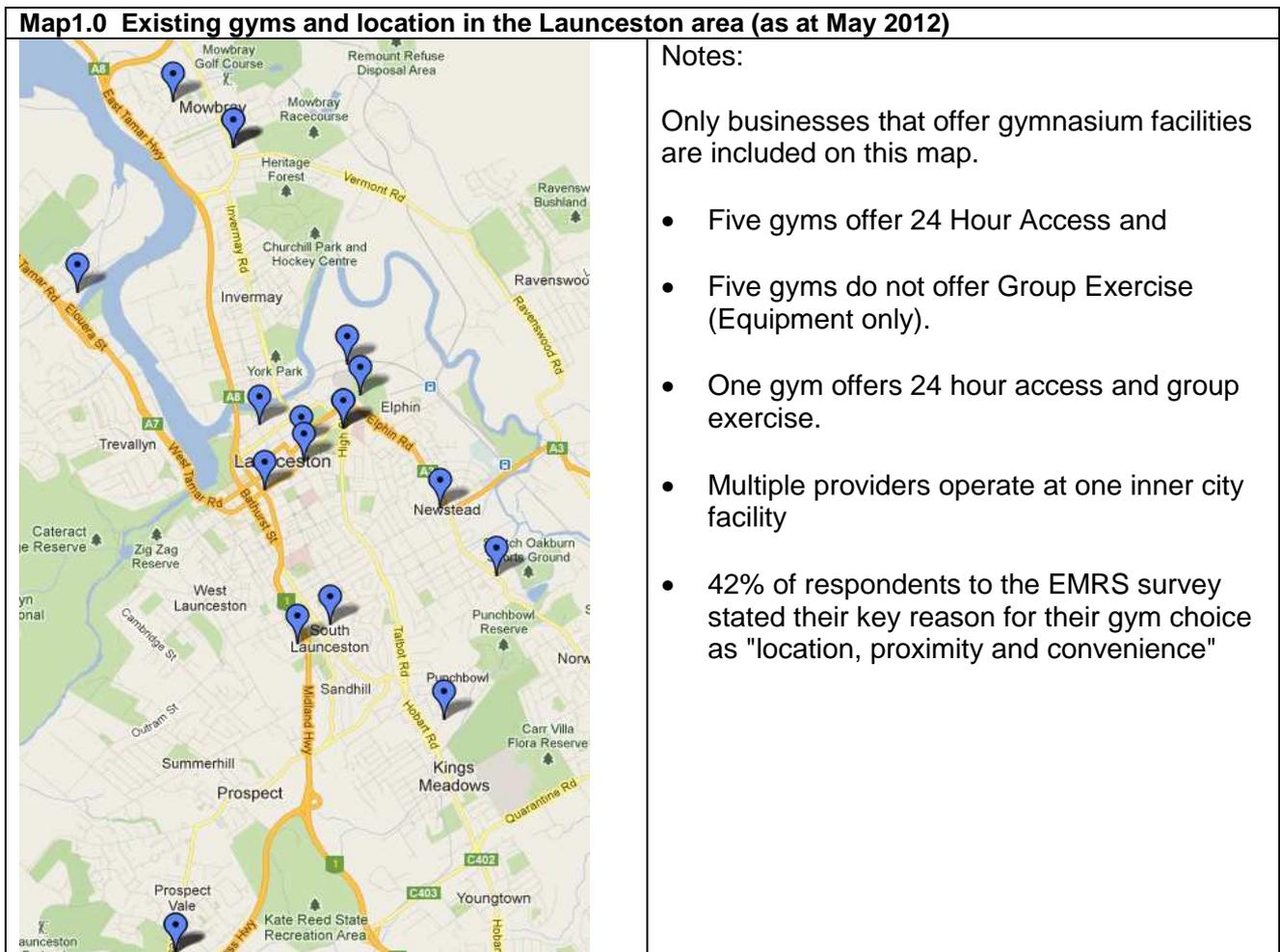
- 23% of the respondents, who were not a member or a regular visitor to a gym, would be 'very likely' or 'somewhat likely' to take up membership if the Centre were to go ahead and offer health and fitness programs.

The online research results, which included existing members of the Centre as well as the Council's online panel, reported that:

- 15% of respondents who were not a member or a regular visitor to a gym, would be 'very likely' or 'somewhat likely' to take up membership if the Centre were to go ahead and offer health and fitness programs.

The market research provides a good business case for establishing a Council managed and community based health and fitness program.

## Location of Existing Operators



## Current Market Size

The size of the health and fitness market can be measured in two ways

- Number of Participants (ERASS)
- Annual Household Revenue (ABS)

The number of participants can be established by using the data from the annual ERASS, conducted by the Australian Sports Commission. In this table, the participation in aerobics/fitness is only 'organised' participation. This includes all activities where a fee is paid.

<b>Adult Participation Rate in 'organised Fitness / Aerobics' (ERASS 2010)</b>		
<b>Catchment Size</b>	<b>70,000 (5km radius)</b>	<b>105,000 (15km radius)</b>
Adult Population (75%)	52,500	78,750
Participation level (9.1%) Tasmania (ERASS 2010)	4,778 people participating in <b>organised</b> aerobics / fitness	7166 people participating in <b>organised</b> aerobics / fitness
Number of gyms	14	18
1% increase in participation levels	525 extra people participating in <b>organised</b> aerobics / fitness	787 extra people participating in <b>organised</b> aerobics / fitness
2% increase in participation levels	1050 extra people participating in <b>organised</b> aerobics / fitness	1575 extra people participating in <b>organised</b> aerobics / fitness

### **House Expenditure Survey (ABS)**

Every 4 years the Australian Bureau of Statistics conducts the household expenditure survey. In the 2009/10 survey the results showed that an average of \$2.71 on average was spent per household per week on gym fees.

This data has been used in conjunction with the statistical data available to provide a snapshot of the size of Launceston gym expenditure.

<b>Household Expenditure Survey 2009/2010</b>	<b>Launceston City Council</b>	<b>Great Launceston Statistical Area (ABS)</b>
Number of Households:	25,461	33,583
Total Household Expenditure on Gym Fees (2009 ABS + CPI of 6% over 2 years)	\$3,806,471	\$5,020,726

Using the modelling from ERASS and ABS a per capita figure can be established. Based on these figures each participant is currently contributing \$796 towards organised fitness activities.

### **Forecast Growth and Estimated Future Demand**

In their most recent industry report, Fitness Australia commissioned Deloitte Access Economics to estimate the growth in demand for fitness industry services between 2010 and 2020.

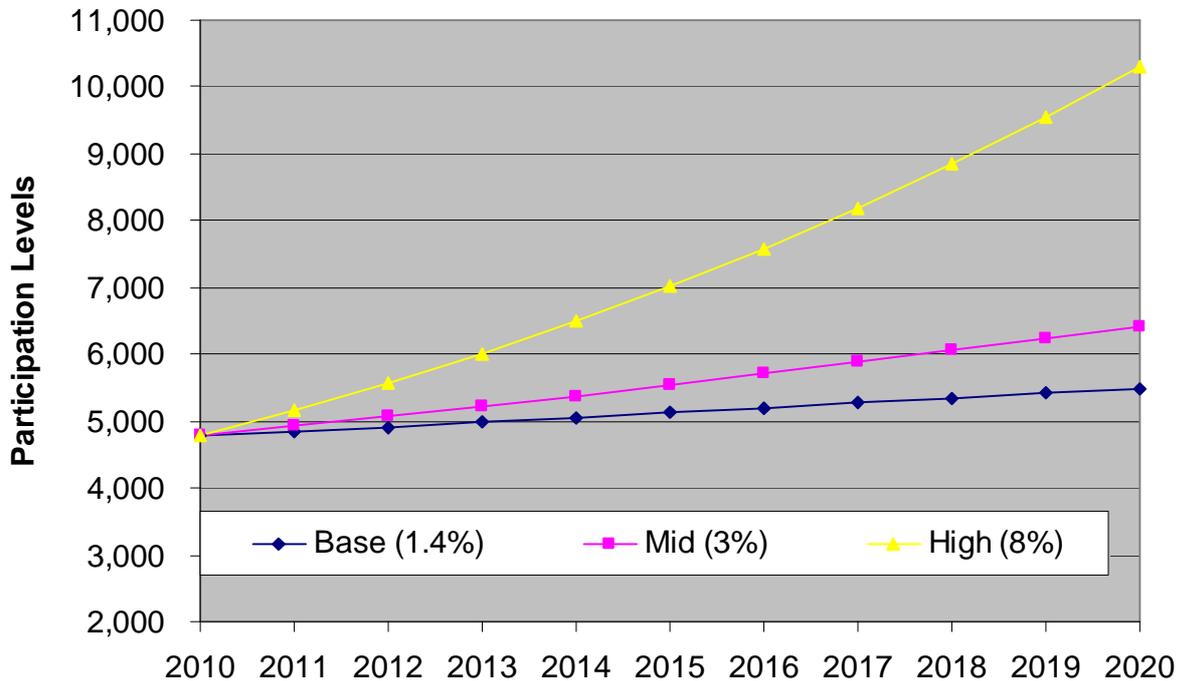
The purpose of the report was to establish the future workforce requirements, however it does provide helpful information about the expected participation increases.

The report has established 3 scenarios for future growth in the health and fitness industry:

- Base case: (population growth and changes in age structure) 1.1 to 1.4% increase per annum
- Mid case: (improvements in consumer wealth) 3.0 to 3.3% per annum
- High case: (changes to consumer spending) 8.8% to 9.1% per annum

The 3 scenarios along with the Tasmanian data from ERASS provide a snapshot of what might occur in the Tasmanian health and fitness market. Even without the goal of increasing the participation level, the data shows that due to population growth and age structures there will be an increase in the number of people wanting to access health and fitness services.

Estimated future demand for Fitness Industry services  
(modelled using ERASS and Fitness Australia Research)



### ***In-House v Lease Option for Health and Fitness***

The ARV Operation Review considered the options of leasing the space to a private operator or maintaining in-house operation.

An external arrangement would provide consistent leasing income and reduce initial operational set-up expenditure. However there are many challenges that would need to be considered, including opening hours, entry locations, use of pool space by gym members, utilisation of space when the gym is closed, employee arrangements and insurance. There will be an expectation by Health and Fitness Centre members that they can utilise the aquatic facilities and this would need to be controlled through the installation of access control doors.

Restricting access to the aquatic side of the operation would reduce the Centre's ability to receive the secondary spend from Health and Fitness customers in the Café and Swim Shop. In the Access Economics report (2009) secondary spend accounts for 12% of all revenue.

The findings in the report showed that Council would stand to benefit more financially from an in-house arrangement.

### ***LA Fit Fitness Plan***

In response to these reports and market research, Launceston Aquatic has developed a Business Plan proposal for a Health and Fitness Centre to be established and managed by Launceston City Council ("LA Fit Business Plan"). The primary aim of the Health and Fitness Centre is to complement existing options in the community and to increase the population participation rate in

organised health and fitness activities by 2% over 5 years. This growth sits in between the base and mid case scenario for future growth established in the Fitness Australia report (Fitness Industry Workforce Report, April 2012)

The LA Fit Business Plan sits alongside the documentation presented in the ARV Operational Review (Attachment 3) regarding the development of a Health and Fitness Centre at Launceston Aquatic.

The proposed Launceston Aquatic Health and Fitness Centre will provide land and aquatic based group exercise classes, as well as a fully equipped fitness studio. The Health and Fitness Centre will also be able to offer:

- Memberships, multi-visit and casual options
- Personal and Small Group Training
- Opportunities for rehabilitation and other specialist programs
- Unique combinations of land and aquatic based exercise

In the EMRS survey conducted by Launceston Aquatic it was found that 53% of respondents viewed "standard equipment and weights" as the preferred gym equipment, 39% felt it was extremely important to "offer a good range of classes" and 57% cited "flexible opening hours" as extremely important. An in-house operated Health and Fitness Centre at Launceston Aquatic would be able to offer all of these requirements.

Using the existing space within the centre, the goal will be to build up to a membership base of 800 members within 5 years of operation.

## LA Fit Key Business Areas

The Health and Fitness will be operated as a business unit within the Centre's business plan. The business unit will be focused on increase usage of the Centre through:

- Casual Entry
- Memberships and Visit Passes
- Personal and Group Training
- Fitness Studio
- Group Exercise
- Community / Council Programs

## Memberships

In the research conducted by Access Economics, memberships are typically the largest revenue earner for health and fitness facilities. In their 2009 report, memberships accounted for 79% of all health and fitness revenue.

Memberships are the biggest revenue contributor to the LA Fit Business Plan, accounting for 77 - 80% of the projected revenue each year. The LA Fit Business Plan is based on growing the membership base from 475 in the first year of operation to 950 in the fifth year of operation.

<b>Projected Membership Growth over 5 years</b>					
	Year 1	Year 2	Year 3	Year 4	Year 5
Memberships	475	650	750	850	950

In the EMRS report, flexible membership options were seen as important. LA Fit memberships will be structured to ensure we are providing this option for members.

Members interested in the aquatic facilities are catered for with the current Leisure and Premium Membership options. For use of the Health and Fitness Centre a Total Membership will be offered, which will include:

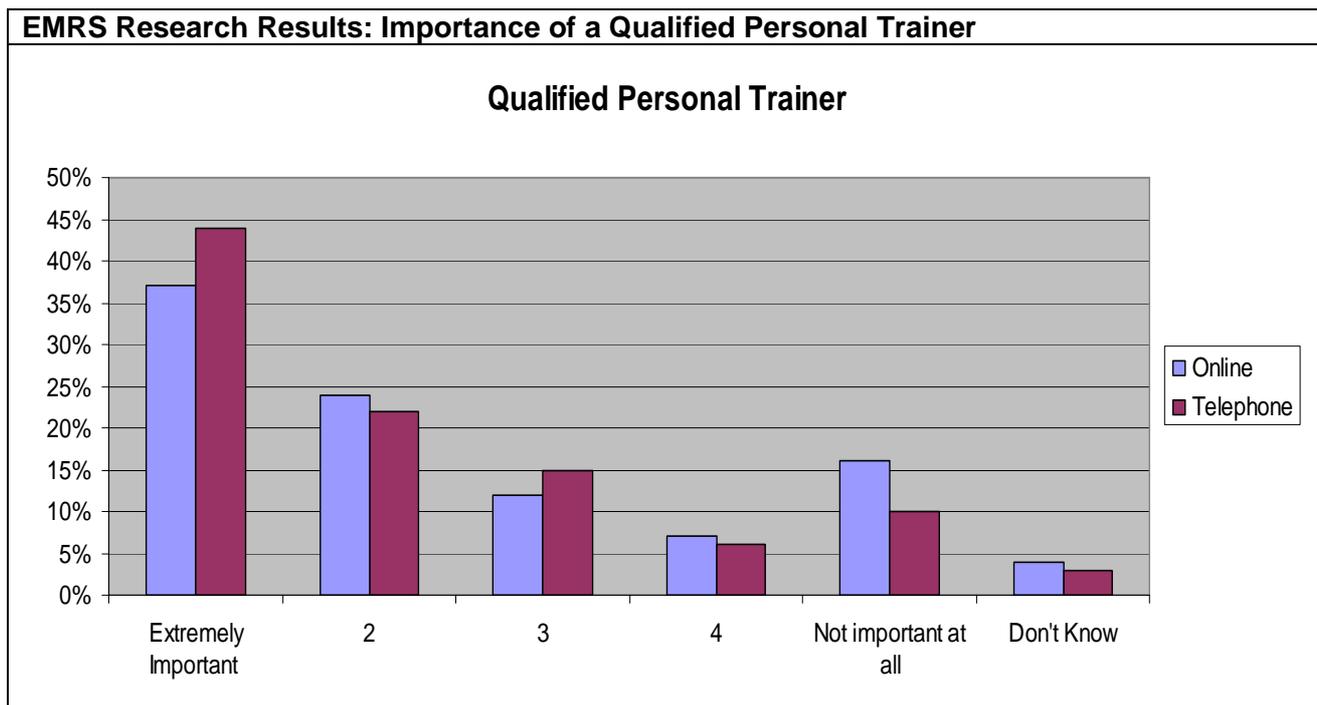
- Premium Aquatic Membership
- Aquatic Classes
- Gym Classes
- Fitness Studio Access
- Members Change rooms

### Personal and Group Training

In the EMRS Research nearly half of the respondents in both the online and telephone survey rated the importance of qualified personal trainers as 'extremely important'. Based on this market research, Launceston Aquatic will be offering supervision across the opening hours of the Centre as well as the opportunity for private personal training.

Personal and group training will be a key part of the Launceston Aquatic Health and Fitness Centre. The area of Small Group Training has been identified as one of the top fitness trends for 2012 and Launceston Aquatic is well placed to take advantage of this trend.

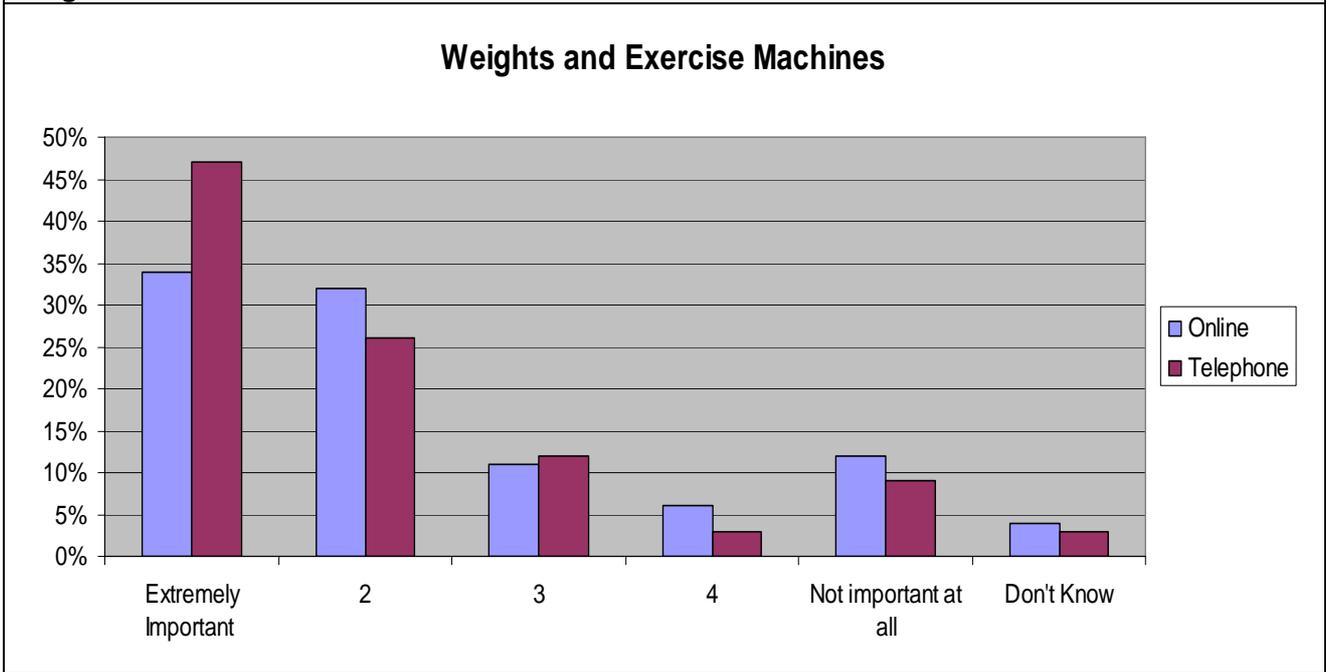
Our ability to provide water and land exercise options makes personal training an attractive option for centre users and can provide a unique point of difference from other facilities.



### Fitness Studio (including gymnasium)

In the EMRS research, more than 50% of the respondents rated weights and exercise equipment as important (1 or 2 on the importance scale). The business plan is based on entering a lease arrangement for the equipment. This will allow the Centre to provide up-to-date equipment.

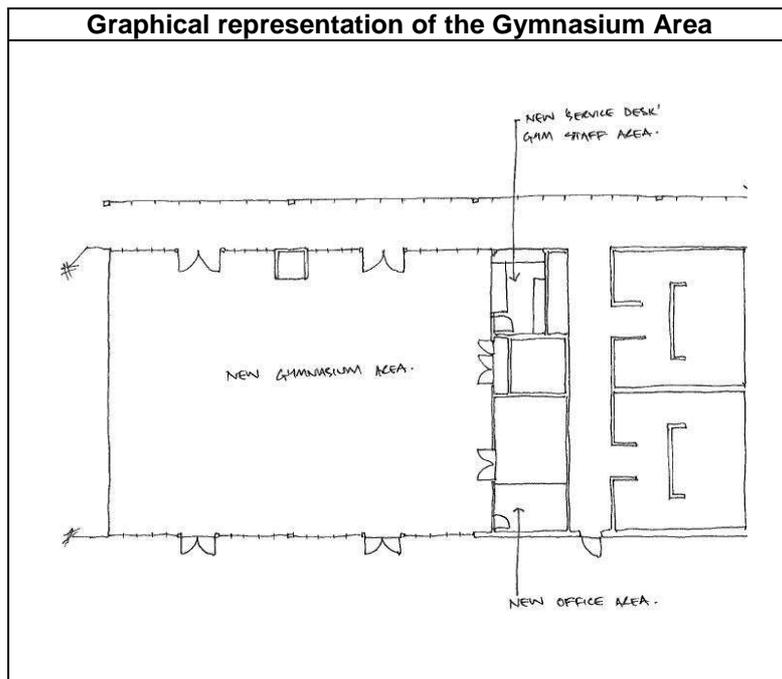
**EMRS Question: How important is it that a gym or health and fitness centre has a good range of weights and exercise machines?**



Based on the market research, weights and exercise equipment will be a key feature in the Health and Fitness program at Launceston Aquatic. The Fitness Studio will be located in the current Programs Room 1 and 2 (approximately 260 square metres) and will include:

- Cardio Zone
- Cross Trainers
- Resistance Equipment

Some capital works be required to convert the programs rooms into a gymnasium area including office space, gym staff area and service desks. A more detailed design for this space can be found in Attachment 2.



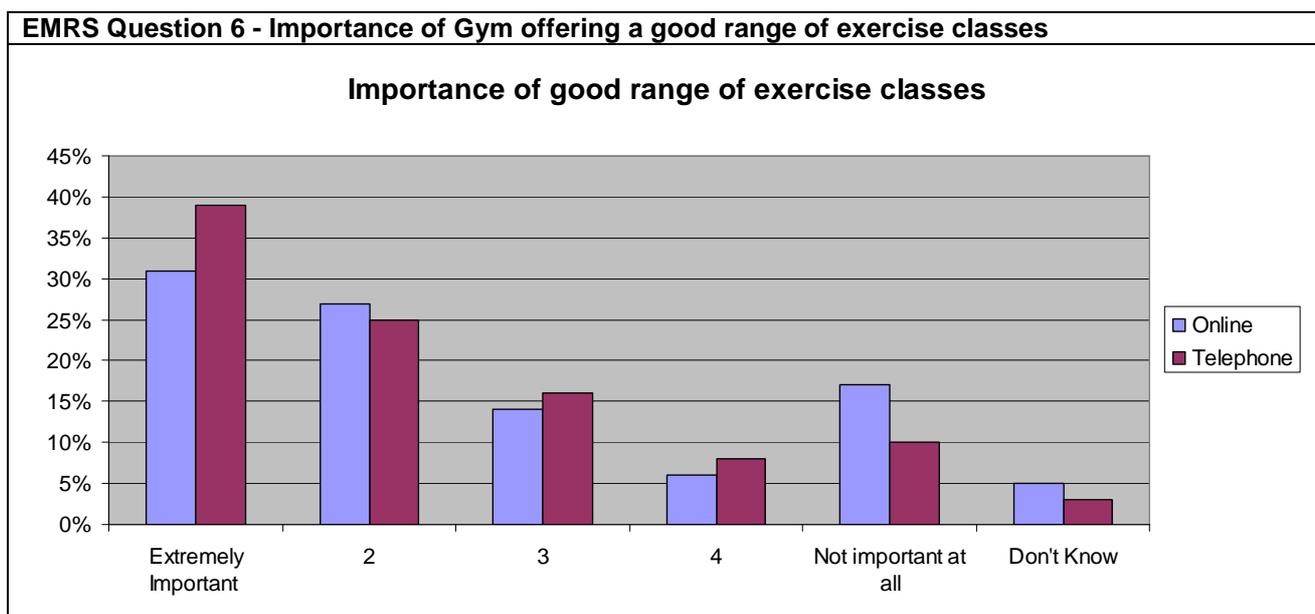
A Gym Instructor will provide supervision and support throughout the opening hours. During peak periods a second instructor will be programmed to provide opportunities for personal and group training.

The Fitness Studio will have the same opening hours as the centre - 6.00am to 8.00pm Monday to Friday and 8.00am to 6.00pm on weekends and public holidays. This spread of hours caters for the bulk of the most preferred times identified in the EMRS survey.

The Fitness Studio will be closed on Christmas Day and Good Friday

## Group Exercise

In the EMRS Research report respondents were asked how important it was that a gym or health and fitness Centre had a good range of group exercise classes.



- Overall, females were more likely to rate the important of group exercise higher than males:
  - Online Results : 33% of females rated group exercise range as 'extremely important' compared to 27% of males
  - Telephone Results: 53% of females rated group exercise range as 'extremely important' compared to 23% of males

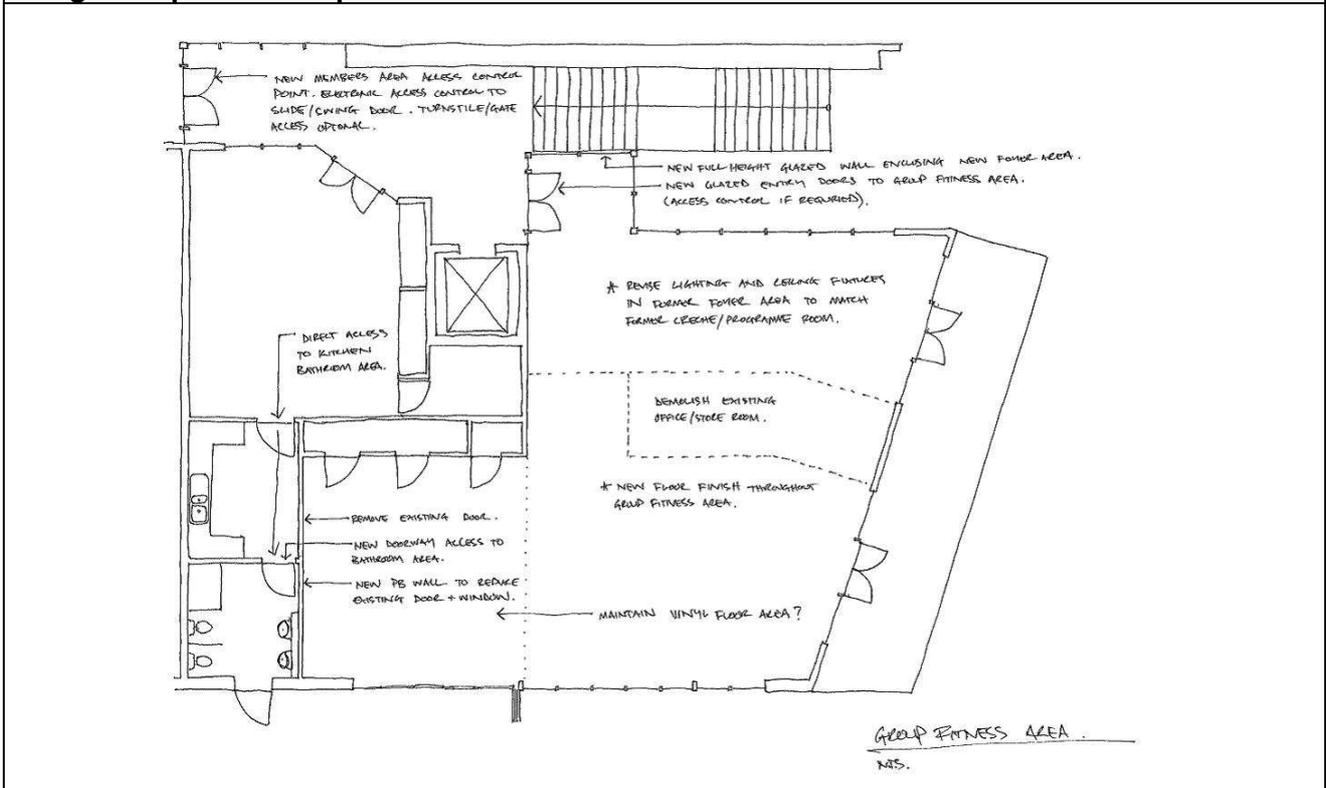
In the immediate catchment area group exercise classes are offered by 9 health and fitness centre.

Based on this market research, LA Fit will be offering a range of Group Exercise Classes. The classes will be run in the area currently occupied by Programs Room 3 (see Attachment 2). This space is currently only used for birthday parties on weekends and occasional meeting room hire. Classes will be offered across 7 days at times that work in with existing centre programs and uses. The business plan is based on entering a licence agreement with one of the Group Exercise program providers. This will ensure LA Fit is providing pre-choreographed class styles that are regularly updated and supported with professional development for employees.

Some capital works will be required to make this space appropriate for group exercise programs. This includes removing the central island which currently contains the Centre Manager's office and

storage facilities. Office space that is currently located on the Level 1 will be moved into vacant space near the Café.

**Image: Proposed Group Exercise Area**



The Group Exercise Studio will be designed and equipment selected to encourage usage throughout the hours of operation, not just during scheduled class times. The main uses for the studio will be:

- Spin Bikes
- Personal Training
- Group Exercise Programs
- Corporate and small groups
- Community Programs

Group exercise classes won't be limited to the studio, classes will also utilise the outdoor area and surrounding Windmill Hill Reserve. The ability to access these spaces again provides a unique advantage for LA Fit.

### **Community / Council Programs**

A major advantage of an in-house managed health and fitness facility is the ability for Council to utilise the facility to provide and support community programs.

Group Exercise rooms typically have periods of time where there are no classes and limited use. In this business plan, the intention is that Council will partner with organisations to deliver community based health and fitness programs.

## Fees and Charges

### ***Overarching Principles:***

The fees and charges for the Launceston Aquatic Health and Fitness Centre will be set according to the Centre's overarching pricing principles:

- To support the Launceston's City Council's Vision, Mission and Values
- To support the Launceston City Council Recreation Planning Framework
- To provide a clear, simple and precise methodology
- To cater for a wide range of users from casual through to annual users
- To facilitate regular and frequent usage
- To be competitive with similar regional facilities and local competitors
- To provide the greatest sustainable financial return for Launceston City Council

### ***Structure of the Launceston Aquatic Health and Fitness Centre Fees and Charges:***

The fee structure is an addition to the current Leisure and Premium Aquatic Membership Structure.

#### **Total Membership**

The Total Membership is designed for customers who want access to all of the facilities Launceston Aquatic has to offer. This membership also includes access to leisure and premium aquatic facilities, aquatic classes and the health and fitness centre and classes.

Customers will be able to choose from:

- 3 month or 12 month term memberships
- Direct Debit Memberships
- Multi Visit Passes
- Casual Entry

### ***Discounts and Concessions:***

Where discounts and concession are applicable in the Fees and Charges the following pricing is proposed:

Concession	25% discount of full price entry options
LCC Employee	20% discount off full priced memberships and visit passes
UTAS, Emergency Services & Defence Force	20% discount off full priced memberships
Corporate	10% discount off full priced memberships

# Human Resources

## *Management Structure*

<b>Positions</b>	<b>LA Level</b>	<b>FTE</b>
Health and Wellness Co-ordinator	8/9	1.00
Membership Officer	5/6	.5
Gym - Technical		2.40
Group Exercise (including Aqua)	Sessional	0.80

### **Health and Fitness Coordinator**

The Health and Fitness Co-ordinator will have responsibility for managing the business area of health and fitness within the centre. The Co-ordinator will report directly to the Centre Manager.

The Co-ordinator will hold qualifications in the Technical and Group Exercise elements. Part of the role is to provide relief for classes

### **Membership Officer**

The membership officer would report to the Centre's Marketing Officer and will oversee the member recruitment and retention program for both aquatic and health and fitness members.

### **Technical Gym Instructors**

The role of the Gym Instructor is to provide safety and instruction for users of the health and fitness centre.

### **Group Exercise Instructor:**

The role of the Group Exercise Instructor is to provide safe, enjoyable and challenging classes in a group setting. Classes can be land or water based.

## **Marketing and Promotions**

### ***Marketing and Promotions Plan***

A separate marketing plan for Launceston Aquatic Health and Fitness will be developed that includes a situational analysis (market, industry and competitive evaluation), SWOT analysis, risk analysis, brand and positioning strategies, marketing objectives, target markets, marketing strategies and action plan and evaluation measures for marketing performance.

### **Foundation Membership Campaign**

A pre-opening membership campaign is essential. The centre needs an offer that creates energy, excitement and most importantly a solid initial membership base.

## **Financial Projections**

### ***5 Year Projection***

A summary of the 5 year projection can be found in Attachment 1 of the LA Fit Business Plan.

### ***Budget Considerations and Assumptions***

The following considerations were factored into the 5 year projections.

#### **Employee Costs**

The Launceston Aquatic Enterprise Agreement is currently being negotiated. Increases have been calculated at 4% per year.

#### **Gym Supervision**

The Health and Fitness Co-ordinator will provide some gym floor supervision in the first 5 years.

#### **Membership Officer**

The cost of the Membership Officer will be shared between the current Customer Liaison and the new Health and Fitness business areas.

#### **Equipments Lease Costs**

Indicative costs have been received by one of the major Australian fitness suppliers. Lease costs include delivery, installation, servicing and maintenance.

## References

- Document: Fitness Industry Workforce Report 2010 - 2020  
Author: Deloitte Access Economics (commissioned by Fitness Australia)  
Year:  
Web: [http://www.myvirtualpaper.com/doc/Fitness-Australia/fitnessindustryworkforcereport\\_summary\\_2012\\_web/2012051401/#14](http://www.myvirtualpaper.com/doc/Fitness-Australia/fitnessindustryworkforcereport_summary_2012_web/2012051401/#14)  
Accessed: June 2012
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Year: 2001 - 2010  
Author: Australian Sports Commission  
Web: <http://www.ausport.gov.au/information/casro/ERASS>  
Accessed: March 2012
- Document: Let's get physical: The economic contribution of fitness centres in Australia  
Author: Access Economics  
Web: <http://www.fitness.org.au/page.php?id=32>  
Accessed: Mar 2012
- Document: 2008 Fitness Industry Profile Report  
Author: Fitness Australia  
Web: [http://www.myvirtualpaper.com/doc/Fitness-Australia/2008\\_Fitness\\_Industry\\_Profile\\_Report/2009052601/#24](http://www.myvirtualpaper.com/doc/Fitness-Australia/2008_Fitness_Industry_Profile_Report/2009052601/#24)  
Accessed: June 2012
- Document: Fitness Industry Workforce Report 2010 - 2020  
Author: Deloitte Access Economics (commissioned by Fitness Australia)  
Web: [http://www.myvirtualpaper.com/doc/Fitness-Australia/fitnessindustryworkforcereport\\_summary\\_2012\\_web/2012051401/#14](http://www.myvirtualpaper.com/doc/Fitness-Australia/fitnessindustryworkforcereport_summary_2012_web/2012051401/#14)  
Accessed: June 2012

# Attachment 1: Financial Projections

## Aquatic Recreation Victoria Business Models

Prepared by Sport and Leisure Solutions  
(LA Fit Business Plan Attachment 2, pages 27 - 28)

In the ARV Review, two business models with financial projections for were presented by the consultant - a realistic and ambitious scenario. Details of the models can be found on page 31 and 32 of this business plan (Attachment 3- ARV Dry Area Development)

### ARV Realistic Scenario:

	Year 1	Year 2	Year 3	Year 4
Total Revenue:	\$352,296	\$582,331	\$725,713	\$764,765
Total Operational Costs	\$424,151	\$445,890	\$467,370	\$489,684
Surplus (per annum)	<b>(\$71,855)</b>	<b>\$136,441</b>	<b>\$258,343</b>	<b>\$275,081</b>

Net return after 4 years: \$598,010

### ARV Ambitious Scenario:

	Year 1	Year 2	Year 3	Year 4
Total Revenue:	\$378,696	\$680,731	\$876,373	\$919,837
Total Operational Costs	\$424,151	\$445,891	\$467,372	\$489,687
Surplus (per annum)	<b>(\$45,455)</b>	<b>\$234,840</b>	<b>\$409,001</b>	<b>\$430,150</b>

Net return after 4 years: \$1,028,536

### Launceston Aquatic Business Model:

Prepared by Melissa Carlton, Centre Manager

Additional modelling has been carried out by the Centre based on the likely set up of a council operated Health and Fitness facility (space / classes / facilities/ employee costs). The modelling used by the Centre is more conservative with the potential net return each year.

In the Launceston Aquatic Business Plan, revenue is projected to be higher than the ARV scenarios in the first year of operation due to the start-up factor. Revenue in the Launceston Aquatic modelling also includes the secondary spend.

Revenue continues to grow from years 2 - 5 but at a more conservative rate in comparison to the ARV modelling.

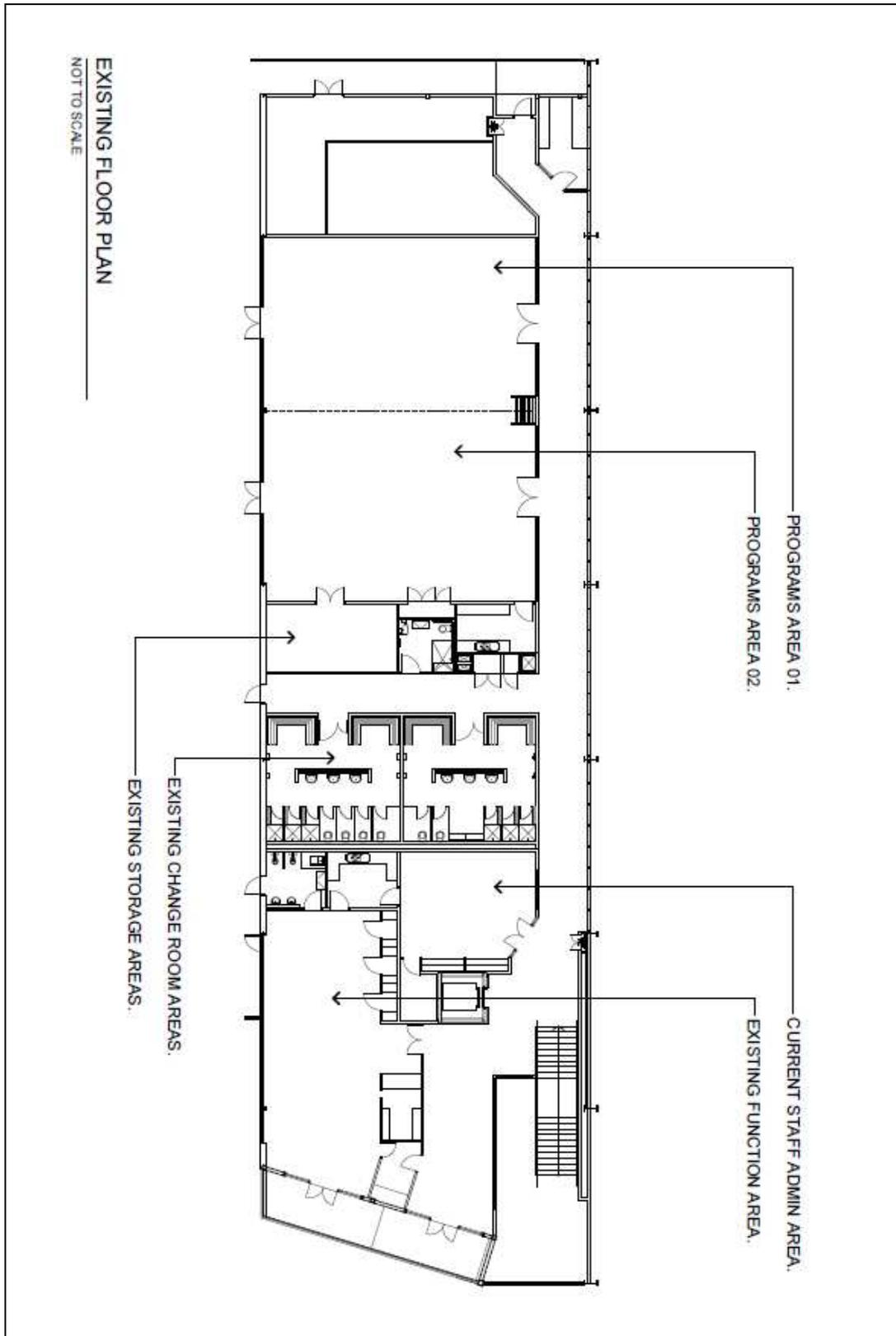
Launceston Aquatic Business Modelling					
	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue:	\$504,505	\$672,174	\$777,076	\$885,594	\$992,404
Total Operational Costs	\$562,135	\$605,847	\$632,825	\$661,515	\$692,113
Surplus (per annum)	<b>(\$57,630)</b>	<b>\$66,327</b>	<b>\$144,251</b>	<b>\$224,079</b>	<b>\$300,291</b>

Net return after 4 years: \$377,027

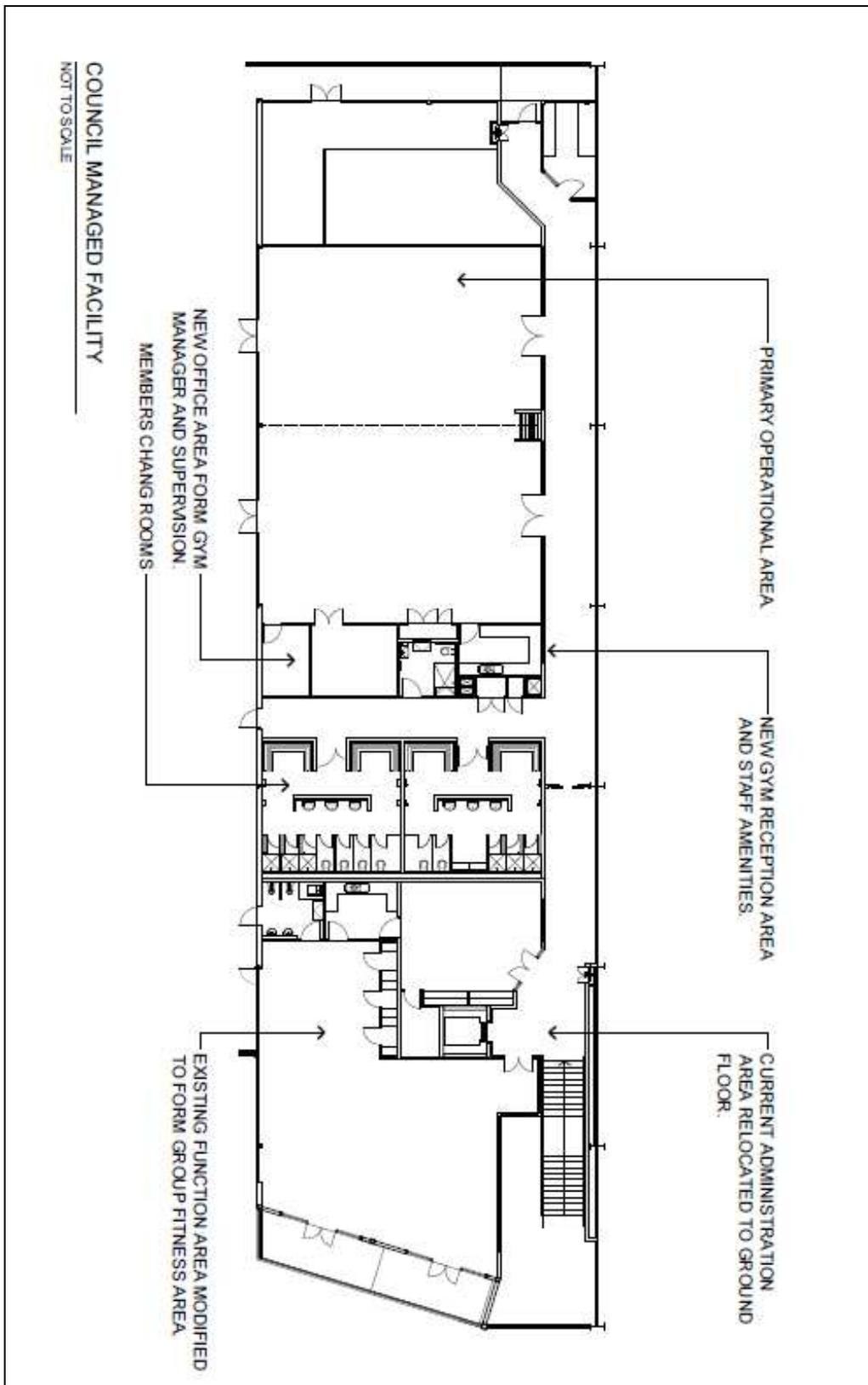
Net return after 5 years: \$677,318

# Attachment 2 - Detailed Design

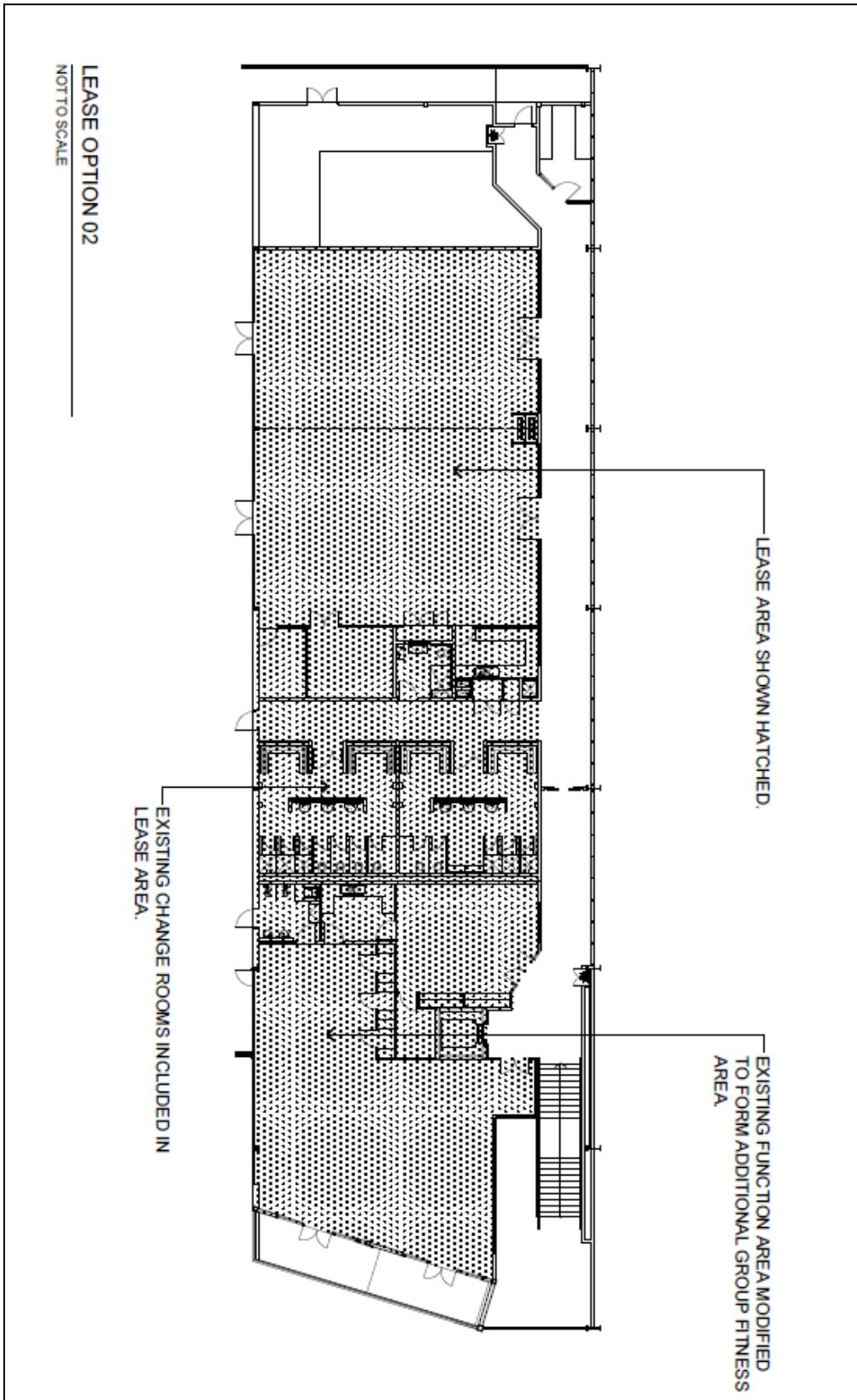
## Attachment 2.1 - Existing Floor Plan



**Attachment 2.2 - Health and Fitness Programs managed by Launceston City Council:**



# Attachment 2.3 - Lease Option (Programs Rooms 1, 2 and 3)



## Attachment 3 ARV Dry Area Development

### 3.0 DRY AREA DEVELOPMENT

#### 3.1 Introduction

This part of the report provides upper level information regarding the potential implications of the development of a gymnasium and program space at the centre.

The investigation included:

- A market scan
- Demographic implications
- Refurbishment options.
- Capital costs
- Operational implications including financial performance
- Future process.

It should be noted that the information in this section should be used to assist council understand the potential implications of developing dry program space and to inform future investigation. It is not intended to represent a complete feasibility study for the development of dry program spaces at the Launceston Aquatic Centre.

#### 3.2 Market scan

Our review indicates that there is a high level of service provision in the local Health and Fitness market. There are 18 facilities within catchment including 14 within a 5 km radius of the centre.

The consequences of market provision are that immediate investigations should focus on developing existing spaces within the centre to deliver dry program service offerings. It is the consulting team's view that significant expansion of the existing centre would come at a significant capital cost and would expose council to risk in terms of return on capital. By focusing on internal expansion Council is able to enter the market without significant capital costs, identify demand and assess whether there is an opportunity to become a larger participant in the market in the future.

The other benefits of smaller development is that it allows council to improve its service mix without significant investment and provides a more holistic service offering for current and future users. It will also enable Council to minimise the impact on private operators and assess the future impact of a major development at the centre.

### 3.3 Community profile

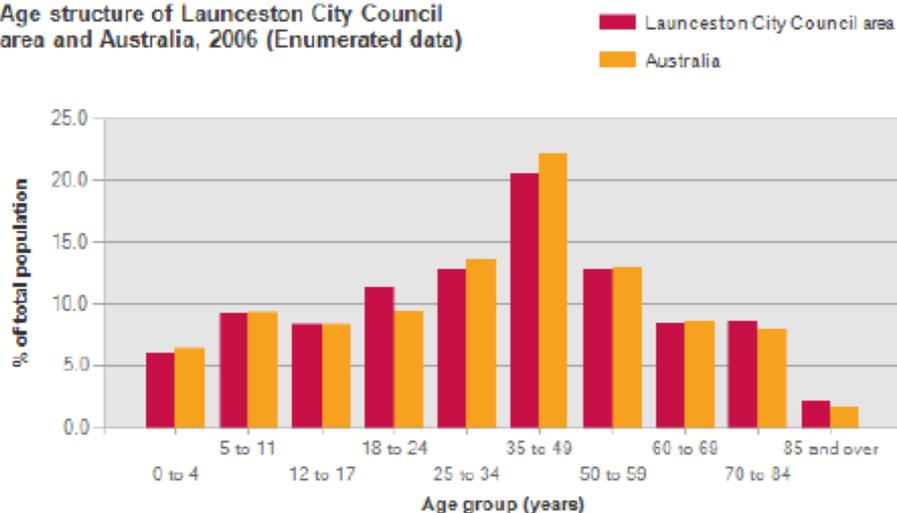
#### 3.3.1 Population review

In 2006, 62,218 people lived in the Launceston LGA. The estimate local resident population as at 30 June 2010 is 65,826.

Analysis of the age structure of Launceston City Council area in 2006 compared to Australia shows that there was a similar proportion of people in the younger age groups (0 to 17) but a larger proportion of people in the older age groups (60+).

Overall, 23.4% of the population was aged between 0 and 17, and 19.2% were aged 60 years and over, compared with 23.9% and 18.1% respectively for Australia.

Age structure of Launceston City Council area and Australia, 2006 (Enumerated data)



Source: Australian Bureau of Statistics, 2006 Census of Population and Housing (Enumerated)

The major differences between the age structure of Launceston City Council area and Australia were:

- A larger percentage of 18 to 24 year olds (11.4% compared to 9.4%), and;
- A smaller percentage of 35 to 49 year olds (20.5% compared to 22.1%).

#### 3.3.2 Household Income review

Analysis of individual income levels in Launceston City Council area in 2006 compared to Australia shows that there was a smaller proportion of persons earning a high income (those earning \$1,000 per week or more) but a larger proportion of low income persons (those earning less than \$400 per week).

Overall, 11.7% of the population earned a high income, and 46.9% earned a low income, compared with 17.9% and 41.0% respectively for Australia.

**Weekly individual income, Launceston City Council area and Australia, 2006**  
(Enumerated data)



Source: Australian Bureau of Statistics, 2006 Census of Population and Housing (Enumerated)

### 3.3.3 Implications for Health Fitness Centre development

There are no significant implications of the age break up in terms of facility development. However there is no doubt that a core component of the service offering should include programs.

Whilst the age profile and size of the LGA is consistent with achieving good levels of attendance at health and fitness centres. What is of interest is the large numbers of people who are considered to be on low incomes. This may be offset by a lower cost of living compared to other parts of Australia. However, it does not present at this an environment which encourages the consulting team to recommend council invests significant funds in an expansion of the existing facility

The relatively low income status, along with the number of competitors presents a cautionary sign post regarding significant capital investment in health and fitness development at this stage.

Data obtained from id.com.au

### 3.4 Development option

It is proposed to utilise existing program spaces to deliver a substantial dry program opportunity incorporating gymnasium and group fitness areas. The proposal will provide 260 m<sup>2</sup> gymnasium and approximately 120 m<sup>2</sup> of group fitness program.

### **3.4.1 Gymnasium area**

It is proposed to utilise Multi-purpose program rooms 1 and 2 for a new gymnasium. Current activities in these rooms include functions, older adult classes and meetings. These rooms are currently underutilised and generate approximately \$12,000 pa.

Program activities undertaken in these rooms will be relocated to the proposed group fitness room, whilst meetings could be held in a meeting room proposed to be constructed in the current studio.

Proposed activity zones in this area include free weights, pin loaded equipment, cardio, stretch and a consultation room. The membership capacity of the space when combined with the proposed program area will be in the vicinity of 800 members. We have predicted that it will take approximately 3 years to achieve this growth.

The current space lends itself to conversion to a gymnasium. There will need to be some works undertaken in relation to provision of electrical services and audio visual facilities. Electrical services and data may be required for some of the cardio equipment, television and sound system. The solution for electrical services could include the installation of a small timber platform for cardio equipment under which to wiring can be connected to each machine. An alternate and less expensive option is to suspend electrical wiring from the ceiling. It should be noted that generally only treadmills require power.

There is current store room adjacent to program room 1. This space will more than meet the storage requirements of the gymnasium. It is proposed to convert part of this space into consulting room (office) for fitness assessments and health consultations.

### **3.4.2 Group fitness room**

It is proposed to convert the existing crèche / program room in to a group fitness room. This room is currently utilised for birthday parties and office accommodation. It has never been used as a crèche and there is no intention to implement crèche services at the centre in the foreseeable future.

Activities to be conducted in this space include aerobics, yoga, pilates, older adults programs, teen programs and birthday parties. Capacity of the room will be approximately 20-25 and the number of weekly programs to be conducted in the long term will be approximately 35.

To maximise the space and enhance its functionality in terms group fitness program delivery it is proposed to demolish some of the existing office space and construct a wall adjacent to the lift well (see attached mark-up of the plan).

Existing programs conducted in this space will remain in this area. However, when group fitness programs and birthday parties are scheduled at the same time birthday parties will be conducted in the existing meeting room on level 1 or in the proposed meeting room in the existing studio.

The space will require installation of a quality stereo system including speakers. A stage will need to be constructed installed. There will be no required for additional storage space.

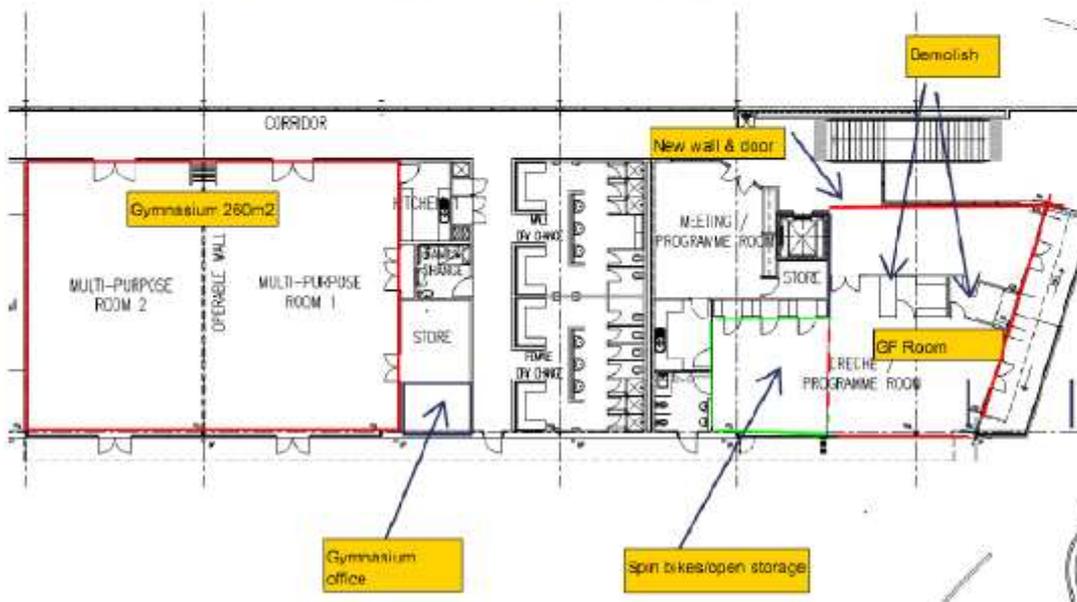
### 3.4.3 Staff accommodation

As noted in the Operational Review staff office accommodation is disjointed and impacts negatively collaboration, teamwork, efficiency and productivity. As part of the proposed development it is recommended that the existing studio room is converted into office space and a meeting room. The meeting room would be used for staff and community group meetings as well as for seminars and programs.

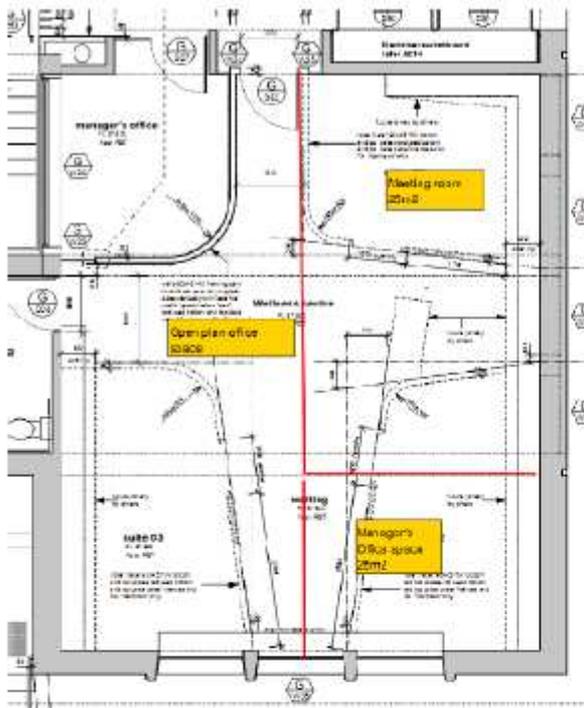
The proposed re-location of staff accommodation will result in the development of administration hub for the centre and provide opportunities for staff to work more closely together. Without the relocation of staff to the studio the proposed conversion of the existing crèche/program room will not be possible and therefore it will not be possible to effectively implement the overall proposal.

The reduction of usable space in the studio room will not be detrimental to current operations and service offerings. All activities currently undertaken in this space can be relocated to either the meetings room on level 1 (currently used as office accommodation) or the proposed program room in the existing studio.

### 3.4.4 Potential Floor Layout Gymnasium And Group Fitness Rooms



### 3.4.5 Potential Staff accommodation (Existing Studio)



### 3.5 Potential capital costs

#### 3.5.1 Broad scope of works and costs

The works identified below is a guide only to enable to Council to understand the potential scope of the work to be undertaken. If the proposal is agreed in principle a detailed scope will need to be developed and costed.

The costs identified in this section of the report are indicative only and will need to be tested once a detailed scope and associated plans have been developed. The estimated costs have been developed in conjunction with an architect and are based on current industry rates.

<b>Gymnasium works</b>	
<b>Works required</b>	<b>Potential Cost</b>
Electrical works for cardio equipment	\$20,000
Consulting room in storage area -16 m <sup>2</sup>	\$10,000
Install sound system.	\$5,000
Install TV screens.	\$15,000
Contingency	\$10,000
<b>Total</b>	<b>\$60,000</b>

<b>Group fitness room works</b>	
<b>Works required</b>	<b>Potential Cost</b>
Demolish existing offices.	\$10,000
New floor including underlay	\$20,000
Build new wall from foyer to lift well.	\$15,000
Install stereo system.	\$10,000
Install instructor stage.	\$8,000
Purchase equipment including steps, fit balls	\$10,000
Electrical works as required.	\$12,000
Contingency	\$10,000
<b>Total</b>	<b>\$95,000</b>

<b>Studio room works</b>	
<b>Works required</b>	<b>Potential Cost</b>
Create manager's office (10 m <sup>2</sup> ) and meeting room (30m <sup>2</sup> )	\$15,000
Create open plan office area (50 m <sup>2</sup> ).	As above
Install power and data for work stations (note existing work stations to be utilised if possible).	\$10,000
Install lighting as required.	\$5,000
Acoustic treatment allowance	\$5,000
Utilising existing storage and shelving if possible.	
Contingency	\$8,000
<b>Total</b>	<b>\$43,000</b>

<b>Summary</b>	<b>Potential capital cost</b>
Gymnasium (excluding equipment)	\$60,000
Group fitness room	\$95,000
Studio	\$45,000
Design consulting services	\$30,000
<b>Total</b>	<b>\$230,000</b>

### 3.5.2 Services requirements

Due to the change in usage of each the spaces it is important that the new requirements for air handling and electrical are assessed in detail as part of the scoping process. The consulting team suspects that the existing services will be able to deliver the new requirements. However, if this is not the case additional works and may be required as part of the development.

### 3.5.3 Gymnasium Equipment

A key component of the service offering will be the equipment installed in the gymnasium. At this stage the consulting team suggests that the equipment is

leased rather than purchased. This will reduce the up-front capital cost of the development and provide better flexibility in terms of upgrading equipment.

To assist with understanding the scope of the project we have developed an inactive list of equipment and associated annual lease costs. The equipment will need to be finalised by the centre's management team and fully costed as part of an EOI or tender process.

In developing the initial equipment list we have allocated the following areas to the each zone. The allocation is based on a ratio of 60% cardio and 40% strength once the stretch area has been identified.

Stretch	40m2
Cardio	132m2
Free weights	88m2
<b>Total</b>	<b>260 m2</b>

Potential cardio equipment	No
Treadmills	10
Upright bikes	5
Recumbent bikes	5
Cross trainers	6
Rowers	2
Arm Ergo	2
Total	30
Potential Annual lease cost	\$42,000

Potential strength equipment	No
Chest fly/pec	1
Chest press	1
Lat Pulldown	1
Assisted chin	1
Shoulder press	1
Tricep extension	1
Bicep Curl	1
Deltoid machine	1
Ab Crunch	1
Leg extension	1
Hamstring curl	1
Hip adductor / abductor	1
Benches	3
Assorted weights, dumbbells, medicine balls	
Total	15
Potential Annual lease cost	\$20,000

The number of electronic pieces is based broadly on an allocation of 4m2 per piece. The total number of strength pieces is based broadly on an allocation of 6m2 per piece. The lease cost is an estimate only and based on recent market rates.

Based on the above equipment lists the annual lease cost will be \$62,000. This may vary based on the prevailing market conditions including the exchange rate for the \$AU. As part of further planning meetings should be held with equipment suppliers to agree on the equipment options and better understand the cost implications.

### 3.6 Operational implications

The operation of the gymnasium and associated dry programs will require additional staff resources to be employed. These will include a Health and Fitness Coordinator, gymnasium instructors, group fitness instructors and a Membership Officer. Costs for these positions have been incorporated in the financial modelling in section 3.7.

The Health and Wellness Coordinator will coordinate aspects of the dry side operations including supervision of staff and programming. Gymnasium staff and group fitness instructors will deliver programs and activities to customers and the Membership Officer will be implement the customer recruitment and retention strategies.

Gymnasium instructors and group fitness instructors will report to the Health and Wellness Coordinator and the Membership Officer will report to the Marketing and Communication Coordinator.

To assist with the overall recruitment and retention effort there will need to be additional resources allocated to a member sales system and ongoing assistance. These costs have also been factored into the financial model.

### 3.7 Financial implications

Tables 10 and 11 below highlight the potential financial performance of the expanded dry program space. As with aquatic revenue generation we have provided a realistic and an ambitious outcome. The realistic forecast is based on a maxim of 800 members. Table 9 highlights potential membership growth.

Table 9

Realistic membership predictions												
Year	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June
2012	180	230	280	330	360	390	410	430	450	470	490	510
2013	530	550	570	590	610	630	650	670	690	710	730	750
2014	760	770	780	790	800	800	800	800	800	800	800	800
2015	800	800	800	800	800	800	800	800	800	800	800	800

Table 10

Dry side program financial performance - Realistic Scenario				
Income	2012/2013	2013/2014	2014/2015	2015/2016

Membership	\$271,800	\$472,320	\$598,856	\$620,289
Casual entry	\$49,296	\$67,371	\$77,687	\$88,477
Personal training	\$31,200	\$42,640	\$49,169	\$55,998
<b>Total income</b>	<b>\$352,296</b>	<b>\$582,331</b>	<b>\$725,713</b>	<b>\$764,765</b>
<b>Expenditure</b>				
Health and Fitness Coordinator	\$68,750	\$70,469	\$72,230	\$74,036
Gymnasium instructors	\$116,381	\$119,290	\$122,273	\$125,330
Group Fitness Instructors	\$49,140	\$67,158	\$77,442	\$88,197
Membership Officer	\$69,160	\$70,889	\$72,661	\$74,478
Personal training	\$18,720	\$25,584	\$29,502	\$33,599
Lease	\$62,000	\$62,000	\$62,000	\$62,000
Sales system and training	\$20,000	\$10,000	\$10,250	\$10,506
Additional marketing expense	\$20,000	\$20,500	\$21,013	\$21,538
<b>Total Expenditure</b>	<b>\$424,151</b>	<b>\$445,890</b>	<b>\$467,370</b>	<b>\$489,684</b>
<b>Net</b>	<b>(\$71,855)</b>	<b>\$136,441</b>	<b>\$258,343</b>	<b>\$275,081</b>
<b>Cumulative improvement</b>				<b>\$598,010</b>

**Table 11**

<b>Dry side program financial performance - Ambitious Scenario</b>				
	2012/2013	2013/2014	2014/2015	2015/2016
<b>Income</b>				
Membership	\$298,200	\$570,720	\$749,516	\$775,361
Casual entry	\$49,296	\$67,371	\$77,687	\$88,477
Personal training	\$31,200	\$42,640	\$49,169	\$55,998
<b>Total income</b>	<b>\$378,696</b>	<b>\$680,731</b>	<b>\$876,373</b>	<b>\$919,837</b>
<b>Expenditure</b>				
Health and Fitness Coordinator	\$68,750	\$70,469	\$72,230	\$74,036
Gymnasium instructors	\$116,381	\$119,290	\$122,273	\$125,330
Group Fitness Instructors	\$49,140	\$67,158	\$77,442	\$88,197
Membership Officer	\$69,160	\$70,889	\$72,661	\$74,478
Personal training	\$18,720	\$25,584	\$29,502	\$33,599
Lease	\$62,000	\$62,001	\$62,002	\$62,003
Sales system and training	\$20,000	\$10,000	\$10,250	\$10,506
Additional marketing expense	\$20,000	\$20,500	\$21,013	\$21,538
<b>Total Expenditure</b>	<b>\$424,151</b>	<b>\$445,891</b>	<b>\$467,372</b>	<b>\$489,687</b>
<b>Net</b>	<b>(\$45,455)</b>	<b>\$234,840</b>	<b>\$409,001</b>	<b>\$430,150</b>
<b>Cumulative improvement</b>				<b>\$1,028,536</b>

It is the consulting team's opinion that the budget targets should reflect membership figures associated with the "realistic" scenario.

Assumptions associated with the realistic scenario

- It is anticipated the dry program spaces will not be open until 1 July 2012.

- After an establishment period there will be 35 group fitness classes conducted weekly.
- The Health and Fitness Coordinator will be rostered in the gymnasium 3 days per week to reduce casual staff costs.
- Health and Fitness Coordinator and casual gym instructor rates are aligned with current staff pay rates.
- Group fitness instructor rates have been set at \$50 per classes.
- CPI has been calculated at 2.5% pa.
- The average membership fee will be \$60 per month GST exclusive.

The realistic financial model identifies a \$71,000 loss in year increasing to a net surplus of \$275,000 in 2015/2016.

Over the next 5 years the cumulative net improvement will be \$598,000. Over a 10 year period the cumulative net improvement would be \$2,080,000. (See table 12 below.) Based on these figures the consulting is of the view that the proposed initial investment of \$250,000 is justified and recommended.

**Table 12**

10 year forecast Gymnasium Expansion						
	Y1	Y2	Y3	Y4	Y5	
	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	Cumulative
Income	\$0	\$352,296	\$582,331	\$725,713	\$764,765	
Expenditure	\$0	\$424,151	\$445,890	\$467,370	\$489,684	
<b>Net</b>	<b>\$0</b>	<b>(\$71,855)</b>	<b>\$136,441</b>	<b>\$258,343</b>	<b>\$275,081</b>	<b>\$598,010</b>
	Y6	Y7	Y8	Y9	Y10	
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	
Income	\$783,884	\$803,481	\$823,568	\$844,157	\$865,261	
Expenditure	\$501,926	\$514,474	\$527,336	\$540,519	\$554,032	
<b>Net</b>	<b>\$281,958</b>	<b>\$289,007</b>	<b>\$296,232</b>	<b>\$303,638</b>	<b>\$311,229</b>	<b>\$2,080,072</b>

### 3.7.1 Outsourcing gymnasium operations

One option suggested for the operation of the dry side area is to offer the dry space to a private operator through a tender process. Whilst will this provide Council with a guaranteed revenue stream it is our estimation that rental fee of \$50,000 would be achieved through this arrangement. Over a 10 year period this will deliver \$510,000 net revenue to Council.

If private operators were asked to contribute to the refurbishment cost this figure would be significantly less. In fact they may ask for a 5 year rent free period to cover refurbishment costs.

This type of arrangement will also introduce operational challenges including control of patrons once they are in the centre, allocation of utility costs and facility entrance arrangements including sharing the costs of reception staff.

These types of arrangements have the potential to be problematic and do not offer the potential returns that could be achieved if this area was operated by the LAC. Whilst the consulting understands the need to explore this option it is not one that can be recommended.

### 3.8 Combined financial implications

When the potential improvement of the learn to swim program and the dry side expansion are combined the net losses could be reduced from the current level of \$1.2 million to \$358,000 by 2015/16. This represents a cumulative improvement of \$2.8 million over 5 years. When extrapolated over a 10 year period the cumulative improvement could be in the vicinity of \$7.8 million. See table 13 below.

Table 13

Combined potential net improvement						
	Y1	Y2	Y3	Y4	Y5	Cumulative results
	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	
Current loss	(\$1,200,000)	(\$1,230,000)	(\$1,260,750)	(\$1,292,269)	(\$1,324,575)	(\$6,307,594)
Plus swim school	(\$999,990)	(\$856,815)	(\$764,315)	(\$726,044)	(\$683,780)	(\$4,030,994)
Plus gymnasium	(\$999,990)	(\$928,670)	(\$627,874)	(\$467,701)	(\$408,699)	(\$3,432,935)
Cumulative improvement						\$2,874,660
	Y6	Y7	Y8	Y9	Y10	Cumulative result
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	
Current loss	(\$1,357,690)	(\$1,391,632)	(\$1,426,423)	(\$1,462,083)	(\$1,498,636)	(\$13,444,058)
Plus swim school	(\$700,874)	(\$718,396)	(\$736,356)	(\$757,765)	(\$773,634)	(\$7,714,969)
Plus gymnasium	(\$418,916)	(\$429,389)	(\$440,124)	(\$451,127)	(\$462,405)	(\$5,634,897)
Cumulative improvement						\$7,809,161

Note: All figures have been CPI adjusted by a factor of 2.5%.

### 3.9 Market position

Whilst there may be some impact on other service providers in the health and fitness market it is likely that members of LAC will be new to the health and fitness market.

Our experience operating community facilities is that there is a section of the community that are more comfortable in community facilities and are unlikely to use a private centre. This demographic typically is over 40 and relatively deconditioned. Consequently, whilst we suspect there may be some recruitment of members from existing facilities we believe that if the centre differentiates itself in the market to private operators it will attract people looking for an alternative to what is currently available.

Market position can be influenced by a range of factors including programs offered, equipment purchased and communications collateral. For instance a high proportion of pin loaded equipment compared with free weights will discourage weight lifters from using the centre and encourage use by people looking for improved fitness rather than muscle bulk.

### 3.10 Benefits of the proposal

The development of the dry area has a number of benefits to council and customers. These include

- Improved financial performance
- A complete health and fitness service for customers – “one stop shop” for health and fitness.
- An alternative health and fitness venue for community members who don't feel that private facilities meet their needs.
- An opportunity through a concession pricing structure to increase health and fitness opportunities for concession card holders and older adults.
- Improved staff accommodation and operational efficiency.

### 3.11 Additional tasks

In order to further understand the cost implications of the project we suggest that council test the pricing assumption through the following steps:

- a) Discuss the proposal with a builder to further clarify potential costs.
- b) Hold discussion with gymnasium equipment suppliers to further clarify likely equipment costs.
- c) Investigate the capability of existing building services, specifically, air handling and electrical services, to meet the needs of the “new” areas.

If council is satisfied with the information obtained at this stage the following tasks could be implemented to deliver the project.

- a) Agree on the final scope and appoint architect and other consultants as required.
- b) Develop detailed plans and FFE requirements (including IT), obtain quotations from builders and appoint builder.
- c) Finalise gymnasium equipment list, tender and select supplier.
- d) Develop transitional plan for customers during construction.
- e) Develop communication plan regarding the refurbishment - internal and external.
- f) Develop positions descriptions for new roles, interview and appoint staff.
- g) Establish sales process and retention system.
- h) Develop marketing campaign for pre- opening and post-opening periods
- i) Conduct presales program.
- j) Conduct a major launch/ opening of the new space – community open day

### 3.12 Summary Comment

The proposed strategies and development initiatives represent a significant opportunity for Council to reduce the cost of operating the centre. If losses remained at the current level the cumulative 10 year loss would be in the vicinity of \$13.4 million. If the swim school strategies are successfully implemented the 10 year loss will be reduced to \$7.7 million. If the dry side expansion is also implemented the cumulative loss will be reduced to \$5.6 million. This is a potential improvement of \$7.9 million over 10 years.

Whilst Council is justified in its concern at the current level of the losses the consulting team is satisfied that there is sufficient market potential in swim school and health and fitness (dry side programs) to significantly improvement financial performance over the next 10 years. However, the consulting suggests that Council should not progress with development without fully scoping the project and

investigating the capacity of the existing service to meet the activity levels of the proposed development.

The consulting team also reminds Council that the analysis of the proposed development has been at high level and does constitute a detailed feasibility study.

# Attachment 4 - EMRS Survey Results