



FINANCE AND MANAGEMENT CASE STUDY

Final Test of Professional Competence

28 November 2007

PRE-SEEN MATERIAL AND CASE FILE

Time allowed: 6 hours 10 minutes

Morning Session Part 1:	From 9.45 am to 12.15 pm
Morning Session Part 2:	From 12.20 pm to 1.00 pm
Afternoon Session:	From 2.00 pm to 5.00 pm

The first session will end at 12.15 pm at which time question 1, the quick response question, will be distributed to candidates. At 12.20 pm candidates will be given 40 minutes to prepare an answer to this question, which will be collected at the end of the morning session. The remaining questions are set out on a separate sheet, so that candidates can work on these throughout the examination. All questions must be answered. The weightings for each question are indicated in the parentheses at the end of the question.

Nothing may be taken from the examination room during the lunch interval, nor may anything be brought into the afternoon session. It is against examination regulations for candidates to collude during the lunch break nor should there be any contact with academics.

The case study has been prepared on the assumption that candidates will not necessarily have a detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded those candidates displaying such knowledge.

Candidates should submit all papers produced during the examination, but they should distinguish clearly between formal answers (including appendices) and working papers.

AT THE HEART OF
YOUR CAREER 



FINANCE AND MANAGEMENT CASE STUDY

Final Test of Professional Competence

28 November 2007

QUESTIONS

NOTES TO CANDIDATES

- (i) Answers to be prepared as on 28 November 2007 by Alex Andrea, Senior Accountant (Technical) at Utopia County Council (providing assistance to the Interim Treasurer, Nunsuch Leisure Arena Joint Board).
- (ii) The questions below are intended to test the candidate's understanding of the situation in the case.

QUESTIONS

- 2. Draft the confidential report for the special meeting of the Joint Board on the capital works tenders for Phase 2, and associated funding issues, in accordance with the Interim Treasurer's e-mail of 20 November 2007 (Page 21). (27%)
- 3. Draft the briefing note for the Chairman on Fitness Club membership issues, as set out in the Interim Treasurer's e-mail of 23 November 2007 (Page 25). (36%)
- 4. Draft the discussion paper for the Interim Treasurer on revisions to the Medium Term Financial Plan and related issues, as specified in the Interim Treasurer's e-mail of 27 November 2007 (Page 28). (18%)

AT THE HEART OF
YOUR CAREER



NUNSUCH LEISURE ARENA JOINT BOARD



Background

The Nunsuch Leisure Arena (NLA) project aims to provide state of the art sports and fitness facilities for Nunsuch, a rapidly expanding town within the county of Utopia.

Utopia is a mainly rural county, but contains two other urban centres, Utopia City, (eight miles away from Nunsuch), and Eldorado (thirty miles away from Nunsuch).

Utopia lies at the heart of the Republic of Atlantis, which is an independent sovereign state. Atlantis does not levy Value Added Tax. Its currency, the Atlantis pound (£), has parity with the £ sterling.

Atlantis has enjoyed an annual inflation rate at or about zero in recent years. It is the opinion of leading economists that this situation will continue over the next five years.

A two-tier local government structure operates in Atlantis, with two local authorities, Utopia County Council (UCC) and Nunsuch District Council (NDC), sharing responsibility for providing local government services in Nunsuch. These two authorities have concurrent legal powers for the provision of recreational facilities.

Progress to date

UCC and NDC have formed the NLA Joint Board, which has responsibility to provide and operate the NLA. The Joint Board also enjoys the support and participation of the national sporting body, Sport Atlantis.

The Joint Board's financial year ends on 31 March, and it has received an unqualified audit certificate for its 2006/07 accounts.

Phase 1 of the NLA opened for business on 01 April 2007 and comprises a health and fitness suite (with a target of 1,345 Fitness Club members to be achieved by 31 March 2011, plus income from casual use) and an athletics track.

The Fitness Club has a number of different membership categories:

- full membership (for individuals or families) - full members are able to use the facilities at any time when the Arena is open.
- off peak membership at reduced rates (again for individuals or families).
- concessionary memberships at reduced rates for senior citizens and people with disabilities.
- group memberships provided via local employers, again at reduced rates.

Construction of Phase 2 is due to start in April 2008 and it should then open to the public on 01 July 2009. Phase 2 will include a multi use sports hall, hockey and rugby pitches, club rooms, and bar and catering facilities.

Governance

The legal status of the Joint Board is that of a separately accountable local government body. The Joint Board's objectives are:

- *"To provide facilities and opportunities for physical recreation or other similar leisure time occupation for the benefit of the general public in the interests of social welfare.*
- *To promote a practical understanding of the principles of health and fitness."*

The Joint Board has eleven members in total and is responsible for directing the NLA's affairs in accordance with the above objectives and within the available funding.

Members are appointed on the following basis:

- UCC - three members
- NDC - three members
- Sport Atlantis - one member
- Co-opted persons - four members

The two authorities and Sport Atlantis each select their own nominees, who, in the case of the local authorities, do not have to be elected councillors.

These members then appoint the rest of the Board (the co-opted members). The persons chosen as co-optees all have a strong record of service to the local community, particularly in the sporting field.

All members of the Joint Board are required by law to act in the best interests of the NLA when they are dealing with NLA business.

The Board chooses its Chair from amongst its members. The current Chair, Councillor Sam Arkand, has been appointed to the Joint Board by NDC.

As well as being an elected councillor, Councillor Arkand is a leading member of the Utopia sports fraternity and won a bronze medal as a member of the Atlantis volleyball team at the 1974 World Games. He is well known in Nunsuch for his forthright views and "no-nonsense" approach.

Responsibilities of the Joint Board

The Joint Board takes direct responsibility for:

- Monitoring the service delivery and financial performance of the leisure management operator.
- Future development plans.
- Capital expenditure and funding transactions.
- Maintaining good relations with sponsors.
- Negotiation of financial support from the two local authorities.
- Insurance arrangements.
- Major maintenance works.

The Joint Board has appointed a firm of surveyors (Nye Robey and Partners) to advise on capital contracts and to report on property maintenance issues.

Joint Board staff resources

The Board made three part-time appointments, a Chief Executive (Jack Carter), who works for the Board three days per week; a Treasurer (Sarah Yavo), two days per week; and a Secretary (Winnie Pegg).

Jack Carter has been in post as Chief Executive since the initial planning stage of the NLA development. He came to the Joint Board after taking early retirement from a senior post in a large architectural practice. His in depth experience of major capital projects was seen as being particularly relevant to the needs of the Joint Board at that time.

The role of the Treasurer is to provide the NLA with financial management and accounting expertise, to maintain effective financial control on behalf of the Joint Board and to give independent financial advice to the Board.

Sarah Yavo has recently left this post to move to another part of Atlantis. The Joint Board's financial records are understood to have been up to date at the time of her departure. The Joint Board expects that it will take some months to recruit a suitable permanent replacement for Ms Yavo.

Winnie Pegg provides secretarial and clerical support to the Board and the two executives.

Operational management

The Joint Board has placed operation of the NLA in the hands of Body and Soul Leisure (BSL), which is a specialist leisure management company, under a seven year contract, running from the opening date of Phase 1 (01 April 2007).

The management contract was awarded following consideration of competitive tenders by a panel set up for the purpose. The financial elements of the various tenders were given approximately equal scores, but BSL's bid was considered to be the most advantageous, because of the commitment and enthusiasm demonstrated by its management team.

BSL operates a range of leisure and fitness facilities throughout Atlantis, mainly as managing agents for the relevant owners. Its Managing Director is Nick O'Seer, and its on site team at the NLA is led by the Site Manager, Cath Mandoo. BSL has undertaken that the Site Manager will be based full-time at the NLA.

BSL's remit extends to promotion of all facilities at the NLA, as well as day-to-day operations and routine maintenance. It employs the NLA's operational staff, collects the trading income and pays most of the running costs as agent for the Joint Board.

BSL provides a monthly management report to the Joint Board containing relevant operational and financial information.

The following arrangements have been adopted for financial administration:

- a) Operational income and expenditure
A payment is made each month from the Joint Board to BSL (or vice versa) to reflect the net trading outcome for the preceding month. These transactions are verified by a certificate provided by BSL's external auditors at the year end.
- b) Management fee
 - BSL also receives a management fee from the Joint Board, payable monthly.

- For initial planning purposes, the bar and catering facilities within Phase 2 have been treated as falling within BSL's management responsibility. However, this issue has not been finally determined. Should the Joint Board adopt alternative management arrangements for bar and catering, an appropriate reduction will be negotiated to BSL's management fee effective from July 2009 onwards.
- c) **Management fee incentive/penalty scheme**
- **BSL can qualify for a bonus payment each year, if the Fitness Club membership level exceeds a pre-set number. This bonus will amount to £30 for each Fitness Club member above a threshold of 1,200 members in any year.**
 - **From 01 April 2009, BSL will suffer a penalty of £30 per member for each Fitness Club member below a threshold of 1,100 members in any year. This penalty mechanism will not apply during 2007/08 and 2008/09, as Fitness Club membership has to be built up from zero from the date of commencement of the Club's operations (01 April 2007).**
 - **The membership number for bonus and penalty calculation purposes is the average of the opening and closing membership numbers for the relevant year.**

The NLA is already the home of the Nunsuch Greyhounds Athletics Club. The major rugby and hockey teams in Nunsuch will also become resident clubs once their pitches are ready for use.

Relationships with the two local authorities

UCC took the major role in bringing the NLA into existence, following a county wide review of leisure facilities which identified Nunsuch as suffering from severe under-provision compared with the rest of the county. UCC has been the major capital contributor to the NLA project and has undertaken to provide continuing revenue support.

The successful creation and launch of the NLA are key elements in two sections of UCC's overall Corporate Plan ("Striving for a Better Utopia"), these being the Sports and Recreation Strategy and the Regeneration Strategy.

Despite this support, some members of UCC have voiced concern that the high levels of cost associated with the NLA have drained away funding available for sports provision in other parts of Utopia.

NDC had been pressing for better sports and leisure facilities in Nunsuch for many years prior to the creation of the NLA.

The majority of Nunsuch residents were reported to be very pleased with the initial NLA proposals. More recently, it appears that there is apprehension in the district because of the cost of the continuing financial support that will have to be borne by local taxpayers.

The Joint Board's day-to-day contacts with the two authorities are made via the following officers:

Service and performance issues:

Vera Cruz, Director of Community Services, UCC

Monty Video, Head of Leisure Services, NDC

Financial issues:

Mel Bourne, Director of Resources, UCC

Jan Eva, Head of Finance, NDC

UCC's Audit and Risk Management Division provides the Joint Board's internal audit service.

Capital financing

The sources of capital finance for the NLA are the two local authorities, the Atlantis State Lottery Board (Grantalot), and various other public bodies and private sponsors.

Funding is in place (either actually received or firmly committed) to cover all of the costs of Phase 1, and the pre-contract fees for Phase 2. Efforts are continuing to complete the funding required for the construction and equipping of Phase 2.

All capital payments have been made for Phase 1, apart from release of retentions (£241,000).

The Joint Board is not authorised to enter into any capital commitments until it has sufficient approved funding in place to meet such commitments.

Should an overspend on the capital account nevertheless be incurred, it will be financed in the ratio of 5:1 between UCC and NDC.

UCC is acting as the major provider of local authority capital funds for the project. It has been agreed that if there proves to be an overall surplus of capital funding on completion of Phase 2, UCC's contribution will be reduced by the amount of the surplus (with any excess contribution already made then being returned to UCC).

Medium Term Financial Plan (MTFP)

After detailed discussion with BSL and other partners a Medium Term Financial Plan was drawn up and approved by the Joint Board in March 2007 as an integral part of the NLA's Business Plan. Both local authorities were consulted at length as part of this exercise.

The purpose of the MTFP is to provide a clear picture of the likely financial position of the NLA up until March 2011, assuming that its usage develops in line with the NLA's Business and Sports Development Plans, which set operational and sports development targets.

The MTFP gives the Joint Board's management a benchmark against which actual results can be measured and a clear statement to both local authorities of the financial support, which is likely to be needed from them.

The MTFP figures for 2007/08 were prepared on the basis of estimated outturn prices for that year. Given that national economic forecasts are projecting zero inflation for the whole of the MTFP period, no inflation adjustments have been included in either the income or expenditure figures.

Tables taken from the MTFP are set out on pages (vii) and (viii) below. The expenditure heading "BSL management fee and bonus" on page (viii) includes allowance for the projected level of bonus payable to BSL.

At the time the MTFP was approved, it was noted that building up the NLA's trading income to an annual level of almost £1,000,000 in four years represented a very significant challenge and that such an outcome was by no means certain to be achieved.

Revenue support contributions

The two authorities have agreed on the basis of revenue support contributions to the NLA over the first four years of operation up to 31 March 2011.

It was determined that these contributions should be set so as to enable the Joint Board to cover its projected net expenditure for the four years, and also:

- (i) to build up a working balance of £80,000 by 31 March 2011 in four equal annual instalments, and
- (ii) to create a Major Repairs Reserve (MRR). The annual amounts to be added to the MRR have been calculated on the basis of a study of long-term maintenance requirements for the Arena undertaken by Nye Robey and Partners.

The revenue support contributions from the two authorities were to be allocated on the following basis:

	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>
<i>Utopia County Council</i>	<i>50%</i>	<i>50%</i>	<i>45%</i>	<i>40%</i>
<i>Nunsuch District Council</i>	<i>50%</i>	<i>50%</i>	<i>55%</i>	<i>60%</i>

However, as NDC was facing serious problems in setting its budget for 2007/08, UCC agreed to make an additional revenue deficit contribution of £150,000 for that year only. This change was then incorporated into the MTFP.

In return for its making this extra contribution in 2007/08, UCC stipulated that its remaining contributions in each year of the MTFP period must not exceed the levels shown in the MTFP **by more than 4% in any one year.**

NDC would thus have to meet the cost of any unplanned additional contribution requirements not covered by UCC. NDC agreed to accept this arrangement.

The two authorities further agreed that, for the five year period from 2011/12 onwards, any further requirement for revenue support will be allocated 40% to UCC and 60% to NDC.

Should the two authorities at any stage fail to agree on the size of their respective support contributions, they would nevertheless still have joint legal liability for covering any revenue deficits incurred by the Joint Board. To this end, the Joint Board's founding documents include provision for an arbitrator to be appointed with binding powers to determine their contributions should such a situation ever arise.

Interim financial administration

The Joint Board has been concerned at the prospect of operating without a financial adviser in the key period running up to the letting of contracts for Phase 2. It has therefore been agreed that UCC's Assistant Director of Resources (Technical), Val Ensia, will be seconded to act as Interim Treasurer to the Joint Board on a part time basis until a new appointee is in post.

Ms Ensia will be accountable only to the Joint Board on NLA matters. To avoid any conflict of interest arising, she will take no part in reporting to UCC or its committees on any matters concerning the NLA during the period of her secondment.

You are Alex Andrea, Senior Accountant (Technical) with UCC.

In accordance with her understanding with UCC's Director of Resources, Ms Ensia has advised you that she will be asking you to assist with various aspects of her NLA responsibilities over the coming months, including preparation of reports for the Joint Board.

NUNSUCH LEISURE ARENA

MEDIUM TERM FINANCIAL PLAN - SUMMARY

(as approved by the Joint Board in March 2007)

LOCAL AUTHORITY REVENUE SUPPORT CONTRIBUTIONS

	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
Income	257	482	754	974
Expenditure	867	904	1,153	1,194
Contribution to working balance	20	20	20	20
	887	924	1,173	1,214
Local authority contribution	630	442	419	240
Allocation to the local authorities				
Utopia County Council				
Lump sum contribution	150	-	-	-
Percentage contribution	240	221	189	96
UCC total contribution	390	221	189	96
Nunsuch District Council				
Percentage contribution	240	221	230	144
	630	442	419	240

NUNSUCH LEISURE ARENA
MEDIUM TERM FINANCIAL PLAN - DETAIL
(as approved by the Joint Board in March 2007)

	2007/08	2008/09	2009/10	2010/11
<i>INCOME</i>	£'000	£'000	£'000	£'000
Items under management by Body and Soul Leisure				
Phase 1				
Fitness suite – Fitness Club membership fee income	156	340	419	468
Fitness suite – casual use and fitness class fees	54	65	75	83
Fitness suite sales - gross profit	12	24	32	38
Athletics Track	13	31	46	52
<i>Sub - total</i>	235	460	572	641
Phase 2				
Sports hall – competition & training use	0	0	47	88
Sports hall – events and hire fees	0	0	16	60
Club rooms - rents	0	0	20	45
Pitch fees	0	0	32	43
Bar and catering suite – gross profit	0	0	45	97
<i>Sub - total</i>	0	0	160	333
Other income				
Sport Atlantis – sport development contribution	22	22	22	0
TOTAL INCOME	257	482	754	974
EXPENDITURE				
Items under management by Body and Soul Leisure – Phases 1 and 2				
Building maintenance – day to day items	25	38	55	58
Cleaning	36	41	62	62
Grounds maintenance	22	24	41	48
Marketing	47	26	22	22
Staffing costs (BSL operational staff)	301	306	357	357
Utility supplies	69	73	96	96
Other operating costs	53	56	64	64
Administration costs (BSL)	12	12	13	13
Bar and catering suite – staff costs and operating expenses	0	0	75	108
<i>Sub - total</i>	565	576	785	828
Items under the direct control of the Joint Board				
BSL management fee and bonus	78	88	88	92
Building maintenance – contribution to Major Repairs Reserve	57	71	85	74
Depreciation provision – furniture and equipment	51	51	70	75
Insurance (property and liability)	36	38	45	45
Staffing costs (Joint Board staff)	52	54	54	54
Other management and administration costs	28	26	26	26
<i>Sub - total</i>	302	328	368	366
TOTAL EXPENDITURE	867	904	1,153	1,194

NUNSUCH LEISURE ARENA JOINT BOARD



FILE NUMBER: *AA/Finance/07/A2*

INDEX

Page	Details	Date
1	E-mail from Interim Treasurer to Senior Accountant (Technical) re NLA assignment, with enclosures: (i) Minutes of Joint Board meeting held on 23 October 2007 (ii) Projection of capital expenditure and funding prepared by the former Treasurer in October 2007	25.10.07
7	E-mail from Head of Finance, Nunsuch District Council to Interim Treasurer re financial support	26.10.07
8	Letter from Joe Hannesburg to the Chairman re capital contribution for Phase 2	29.10.07
9	Memorandum from Chief Executive to Interim Treasurer re Fitness Club membership with performance figures attached	02.11.07
11	Letter from Lottery Board to Chief Executive re capital contribution for Phase 2	05.11.07
12	Letter from Body and Soul Leisure to Interim Treasurer re Fitness Club income	08.11.07
13	Memorandum from Chief Executive to Interim Treasurer re funding for Phase 2 capital costs	09.11.07
15	Letter from Chairman to Interim Treasurer re Fitness Club membership	13.11.07
17	Letter from Body and Soul Leisure to Interim Treasurer re Fitness Club income projections	16.11.07
19	Letter from Nye Robey and Partners to Chief Executive re Phase 2 construction tenders, with copy to Interim Treasurer	19.11.07
21	E-mail from Interim Treasurer to Senior Accountant (Technical) re report on Phase 2 capital costs and funding	20.11.07
22	Memorandum from Chief Executive to Interim Treasurer re Fitness Club membership	21.11.07
23	E-mail from Principal Auditor (Contracts) to Senior Accountant (Technical) re Phase 2 tenders	22.11.07
25	E-mail from Interim Treasurer to Senior Accountant (Technical) re Fitness Club membership briefing note	23.11.07
26	Letter from Head of Finance, Nunsuch District Council, to Interim Treasurer re financial support	26.11.07
27	Note from Secretary to Senior Accountant (Technical) re running costs, income, and Fitness Club membership	27.11.07
28	E-mail from Interim Treasurer to Senior Accountant (Technical) re discussion paper on Medium Term Financial Plan and related issues	27.11.07

UTOPIA COUNTY COUNCIL – INTERNAL E-MAIL

From: Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

To: Alex Andrea, Senior Accountant (Technical)

Date: 25 October 2007, 09.46

Subject: Nunsuch Leisure Arena assignment

As we discussed last week, I have now obtained the Nunsuch Leisure Arena (NLA) financial files inherited from Sarah Yavo, so you can collect them from my office when convenient. I am enclosing a copy of the minutes of the Joint Board meeting held on 23 October 2007.

I have had my meeting with the Board's Chief Executive, Jack Carter, to review the NLA workload that we will have to attend to over the next few months in addition to our normal UCC responsibilities.

1. A key item for the Joint Board will be preparing a report on the financial aspects of the letting of contracts for Phase 2 of the NLA development. This report is due to go forward to the Board at a special meeting on 11 December 2007.

The tenders will be opened on 13 November 2007. You'll see from the Joint Board minutes that these offers are likely to involve different contractual arrangements. There are therefore issues of risk and timing that will need to be explored.

In addition, we will need to ensure that the necessary funding arrangements are in place and that the Board can comply with the various conditions that the funding bodies have laid down. You may like to note that one of the intended sources of funding is the Utopian Enterprise Board, which, from past experience, cannot always be relied on to make good its promises.

Enclosed along with the minutes is a copy of the latest projection of capital expenditure and funding for both phases of the project that was prepared by the former treasurer, Sarah Yavo, earlier this month, shortly before her departure.

2. There is also the major piece of work requested by the Joint Board's Chairman, Councillor Sam Arkand, about Fitness Club membership recruitment. Councillor Arkand mentioned to me that he had seen some industry wide data for fitness centre start-ups and he feels that the NLA is lagging significantly behind in membership terms, when compared against both the industry norms and the MTFP assumptions.

Jack Carter, is sceptical about the significance of the issue at this early stage. However, the Chairman wants to be seen to be taking definite action to address the membership problem, so we will need to evaluate for his personal consideration various options which are due to be received from the management operators, Body and Soul Leisure (BSL). These proposals may involve marketing and/or pricing initiatives.

3. As we are now well into the budget preparation season, the financial managers both here at UCC and at Nunsuch District Council (NDC) will soon be clamouring for information about the provisions that they should be making for support to the Joint Board in their own financial plans. This is particularly important for NDC, as the NLA contribution represents one of the largest single items in its revenue spending.

The Joint Board will therefore need to receive at its January meeting a summary of the known revisions to the current MTFP, highlighting the impact that those revisions will have on the level of contributions that will be required from the two authorities.

I would like you to prepare an initial discussion paper for me, setting out the above information, together with your assessment of some other management issues, which I will specify later.

I have spotted, by the way, some double counting in the current version of the MTFP. The provisions included in the BSL section of the MTFP under the heading "Building maintenance (day to day items)" includes the cost of two items that will in fact be paid for from the Major Repairs Reserve. The amounts involved are £12,000 in 2009/10 and £8,000 in 2010/11.

Finally, I should let you know in confidence that there have been some personality issues evident amongst NLA board members in recent weeks.

Jack Carter is concerned that the members of the Joint Board, and in particular the local authority nominees, are not always acting as a team in the best interests of the NLA.

There seems to be a view among some board members that Councillor Arkand has started to act in a dictatorial manner, because of his strength of commitment to the NLA and personal identification with the outcome of the project.

I know that, for his part, Jack is upset that Councillor Arkand has on occasion gone over his head and issued instructions direct to BSL without consulting him. Jack says that this is complicating the relationship with BSL, since BSL managers are no longer sure whether they can rely on the agreed lines of communication being adhered to.

Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

NUNSUCH LEISURE ARENA JOINT BOARD

Minutes of a Joint Board meeting held at 4.00pm on 23 October 2007 at the Bulwark Room, Nunsuch Leisure Arena (Councillor Arkand in the chair).

1. Apologies

The Chairman reported apologies from Councillor Knee, who was undergoing medical treatment. The Board asked for its best wishes for a speedy recovery to be conveyed to Councillor Knee. All other board members were present.

2. Minutes of previous meeting

The minutes of the meeting of the Joint Board held on 18 September 2007 were approved as a correct record.

3. Chairman's announcements

The Chairman welcomed to the meeting Ms Val Ensia, Assistant Director of Resources (Technical) at UCC. He advised members that Ms Ensia would be taking on the role of Interim Treasurer to the Joint Board on a part time basis pending the appointment of a permanent successor to Ms Sarah Yavo.

4. Operational report

Ms Mandoo presented the monthly operational report for September 2007 on behalf of BSL.

She advised that the Atlantis Junior Athletics Finals held on 22 September had proved a great success, with over 3,000 competitors, officials and spectators on site during the course of the day. The Major Events Organiser for Sport Atlantis had praised BSL's efficient organisation and had indicated that he would now be recommending the NLA as the 2008 venue for this event.

The Board congratulated BSL on achieving this outcome.

Ms Mandoo reported on health and fitness activities, advising that attendance at fitness classes was showing a good increase. The new ParrFit exercise regime was proving particularly popular.

It was noted that the growth in membership of the Fitness Club had again proved disappointing during September, which should be a peak recruitment month. There was a net increase of 84 members, as against the 100 anticipated in the Business Plan. Average monthly fee income for September itself was £28.35 per member, as against the £30.00 per member figure built into the Medium Term Financial Plan (MTFP).

The Chairman expressed his concern (which was shared by other members) that membership recruitment to the Fitness Club was now significantly off track. It was noted that this could have serious implications for the financial stability of the NLA and the revenue support that would be needed from the two local authorities.

Ms Mandoo commented that a special promotion launched by the Fitness Fast Centre in Utopia City had had an adverse effect on NLA recruitment during last month, following on from the Intercontinental Cup football, which had kept people at home in front of their TV's in the previous period.

The Chairman stated that he would personally examine the options available to improve recruitment to the Fitness Club and membership income and would report back to the next ordinary meeting of the Board in January 2008.

Ms Mandoo then left the meeting.

5. Financial report

Ms Ensia presented the financial report to 30 September 2007. It was noted that Fitness Club membership fee income was approximately £3,000 below the budgeted level, but that £5,000 would be saved on BSL's operational staffing costs for 2007/08 because of later than expected recruitment to certain posts.

Ms Ensia noted that it was now necessary to revise the Board's MTFP so that up to date information could be provided to the two authorities for inclusion in their own financial plans.

The Board agreed that the revised MTFP information could be shared informally with NDC and UCC officers and should be forwarded formally to the two authorities, as soon as it had been considered at the next ordinary meeting of the Board in January 2008.

6. Phase 2 construction tenders

The Chief Executive reminded members that UCC had undertaken pre-tender vetting on the Board's behalf. Five firms had expressed an interest in tendering and all five had met the criteria that had been set for a project of this size. However, he had subsequently been advised that Goliath Developments, the contractor for Phase 1, had declined to bid following a policy decision on the part of its main board to concentrate on house building.

He had therefore invited tenders for Phase 2 from the four remaining firms. These included a firm of project managers who would be submitting proposals for the facilities to be constructed as a managed project, involving a number of smaller contracts being let for particular aspects of the work.

The Chairman commented that NDC had used the managed project approach for the construction of the Nunsuch Business Park Starter Units, with a value of approximately £950,000. This had proved to be very satisfactory, as it had resulted in lower cost and enabled smaller locally based firms to obtain most of the business.

The responses from all four firms were due to be received by close of business on 12 November 2007, and would be opened the following day in the presence of at least three members of the Board.

It was agreed that a special meeting of the Board be held on 11 December 2007 to consider a confidential report and make the necessary decisions.

7. Phase 2 bar and catering facilities

The Chief Executive reported on the discussion that he had held with Mr Tim Book-Too, Catering Services Manager of Elysium City Council, who has considerable experience in the field of bar and catering operations such as those that would be included in Phase 2 of the NLA.

The MTFP figures for bar and catering had been drawn up on a cautious basis with the view being taken that an overall surplus would not be earned until 2011/12, by which time a considerable volume of business should have been built up.

The advice received from Elysium was that direct management of catering facilities could sometimes result in a very good overall return being obtained in the medium term, but that disproportionate management time and effort might be required to achieve such an outcome.

Mr Book-Too had therefore recommended that the operation should be franchised to a specialist caterer. This would have the benefit that a cash return for the Board should be obtained from the start. He suggested that this should amount to at least £6,000 for 2009/10 and £12,000 for 2010/11, based on the turnover figures discussed.

It was agreed that tenders for a five year catering franchise should be sought during 2008, so that bar and catering operations could start immediately on completion of Phase 2.

8. Dates of future meetings

11 December 2007 – special meeting to consider Phase 2 construction tenders.

22 January 2008 – next ordinary meeting.

9. Close of meeting

There being no other business, the Chairman declared the meeting closed at 5.45pm.

NUNSUCH LEISURE ARENA

PROJECTION OF CAPITAL EXPENDITURE & FUNDING - OCTOBER 2007

EXPENDITURE	Actual expenditure	Current commitments	Further planned spending	TOTAL
	£'000	£'000	£'000	£'000
Preliminary and general costs				
Fundraising	127	12	0	139
Land purchase	425	0	0	425
Legal and financial services	107	33	0	140
Planning fees	65	0	0	65
<i>Sub total</i>	724	45	0	769
Phase 1				
Professional fees	621	38	0	659
Construction and external works	3,968	203	0	4,171
Equipment	344	0	0	344
<i>Sub total</i>	4,933	241	0	5,174
Phase 2				
Professional fees	116	51	324	491
Construction and external works	0	0	3,698	3,698
Equipment – catering / sports hall	0	0	198	198
<i>Sub total</i>	116	51	4,220	4,387
TOTAL CAPITAL EXPENDITURE	5,773	337	4,220	10,330

FUNDING	Already received	Firmly committed	Expected	TOTAL
	£'000	£'000	£'000	£'000
Local authorities				
Nunsuch District Council	375	50	125	550
Utopia County Council	3,850	266	778	4,894
<i>Sub total</i>	4,225	316	903	5,444
Other public bodies				
Sport Atlantis	785	0	0	785
Utopian Enterprise Board	0	0	650	650
<i>Sub total</i>	785	0	650	1,435
Lottery funding				
Grantalot	0	0	2,100	2,100
Business sponsorship				
Bulwark Energy	250	0	0	250
Nunsuch Developments	84	21	0	105
Other sponsorship	202	0	0	202
<i>Sub total</i>	536	21	0	557
Voluntary trusts				
The Joe Hannesburg Trust	0	0	450	450
Vitality Foundation	100	0	0	100
Other trusts	65	10	0	75
<i>Sub total</i>	165	10	450	625
Local fundraising	47	5	98	150
TOTAL CAPITAL FUNDING	5,758	352	4,201	10,311

NUNSUCH DISTRICT COUNCIL – EXTERNAL E-MAIL

From: Jan Eva, Head of Finance, Nunsuch District Council
To: Val Ensia, Interim Treasurer, Nunsuch Leisure Arena
Date: 26 October 2007, 15.46
Subject: Nunsuch Leisure Arena - financial support

Good afternoon, Val, and congratulations on your new assignment!

You won't be surprised to learn that I'm anticipating a very difficult budget round here at NDC. Our capital resources are now fully committed, although, as agreed, we've ring fenced our £125,000 contribution towards the NLA Phase 2, payable in April 2008.

On the revenue side, we await with trepidation the announcement of next year's government grant settlement, which we are due to hear in two weeks' time. At the moment, we've provided in our forward plan for the contributions that were allowed for in the NLA's MTFP document, that is:

	£'000
2007/08	240
2008/09	221
2009/10	230
2010/11	144

These are, as you know, very substantial sums for NDC and it would be helpful if you could let me know, by mid December 2007, whether we ought now to budget for any changes to these figures.

I appreciate that the NLA is still in its first year of operation with all of the uncertainties that that involves. However, the funding of the NLA has now become a highly charged matter within NDC. Our councillors are therefore likely to react very strongly if the contributions required of us show any significant increase.

In the view of some of our influential members, Councillor Arkand has become so determined to show his support for the NLA that he's no longer interested in our own financial problems and has allowed UCC to impose unreasonable conditions on future revenue funding for the project.

He, in turn, has become very sensitive indeed about any criticism of the NLA and is being less than supportive of Jack Carter. In private at least, he appears to feel that Jack is failing to provide effective supervision of Body and Soul Leisure in their day-to-day management role.

I think you should be aware that we haven't by any means heard the last of these issues. My feeling is that demands for renegotiation of the revenue support arrangements in NDC's favour may well be voiced in public before too long, particularly as there is no cap on our share of the bill.

Best regards,
Jan

Alex - please note the above and retain on file.

Val

THE JOE HANNESBURG TRUST
PO BOX 74 UPMARKET ON SEA UP7 4JT

Councillor Sam Arkand
The Nunsuch Leisure Arena
Marathon Way
Nunsuch UT5 6FS

29 October 2007

Dear Sam

It was so good to meet you last week and to hear you explain at first hand your vision for the future of the Nunsuch Arena. My wife and I were very grateful for your kind hospitality, and she has asked me particularly to thank you for the lovely bouquet that you gave her.

Since then, I've been reflecting on my young days in the backstreets of Nunsuch, when we often had to play football out in the road and the only athletics training I got was being chased away by the gardeners when I'd been caught stealing their apples.

Now that I've put my feet up after earning my fortune in the window business, I want to give something back to the town of my birth and make sure that the kids of Nunsuch have the best possible chance in life. That's why I've decided to confirm that my Trust will give £450,000 towards the completion of Phase 2 of the Arena, subject to being satisfied on the following points.

As you know, my Trust only gives money to projects that are sound business propositions, as well as benefiting the community. So, before I part with the money, I shall want assurance in writing that there are sufficient funds available to run the Arena properly in the first few vital years.

I will also want to know that you are putting proper sums of money aside to pay for future repairs, as I've seen far too many projects of this kind that have been allowed to sink into a deplorable state after a few years.

As I shall have to allow for my Trust's other commitments and various tax considerations, my contribution will not be available until May 2009, and I hope this will not cause you too many problems.

You were kind enough to ask about the name that we wanted for the sports hall. Having consulted my wife, I would like to see it named as the Josephine Hannesburg Hall after our daughter, so that will be the final condition of our grant.

Yours ever

Joe
Joe

NUNSUCH LEISURE ARENA JOINT BOARD
INTERNAL MEMORANDUM
From: Jack Carter, Chief Executive
To: Val Ensia, Interim Treasurer
Date: 02 November 2007

Fitness Club membership

As you know, at the last Joint Board meeting, Councillor Arkand undertook to examine options to improve recruitment to the Fitness Club. The starting point for this exercise is how we have performed so far against the assumptions that were incorporated into the MTFP. I have set out the relevant figures on the attached sheet, including the actuals for October, which have not yet been circulated to members of the Joint Board.

I would emphasise that Sarah Yavo undertook extensive study of the local market for fitness facilities and discussed her conclusions with BSL before finalising her membership projections. For the first year, these were built up on a month-by-month basis. I feel that the Chairman may have overreacted to one month's figures and I remain fully satisfied that we are on track to achieve our targets over the MTFP period as a whole. It's clear from BSL's own research that, apart from a small but noisy group of moaners, the vast majority of our Fitness Club members are well pleased with the NLA's facilities, which are generally acknowledged to be the best equipped in the whole of the county.

We may currently have a temporary blip in membership growth, but I don't think this is of any real significance, particularly given the anticipated rate of population growth in Nunsuch.

That said, there will be no harm in looking at both marketing and pricing options at this stage, though I for one will need to be convinced that additional marketing spend will definitely lead to increased membership.

I've asked BSL to report back direct to you with their own projections for growth from now on, together with their comments on future marketing and pricing strategies. I trust that this will assist your colleague in drafting the briefing note requested by the Chairman.

Finally, one item of good news you may like to note is that we've now reached agreement with Ben Galore, a qualified physiotherapist, to base his clinic here at the NLA once Phase 2 is open for business. This should provide us with rent income of £5,000 in 2009/10 and £7,000 in 2010/11, which is not at present allowed for in the MTFP.

Jack

Jack Carter
Chief Executive

Nunsuch Leisure Arena – Fitness Club Membership (CONFIDENTIAL)

Month	Membership numbers						Membership fee income	
	Actuals				MTFP		Actuals	MTFP
	Joiners	Leavers	Period end	Average for period	Period end	Average for period	£	£
April 07	193	4	189	95	175	88	2,737	2,640
May 07	66	8	247	218	255	215	6,281	6,450
June 07	44	5	286	267	285	270	7,662	8,100
July 07	17	6	297	292	305	295	8,343	8,850
August 07	28	13	312	305	325	315	8,681	9,450
September 07	102	18	396	354	425	375	10,036	11,250
Sub total (as reported to Board)							43,740	46,740
October 07	98	26	468	432	505	465	12,200	13,950
Sub total							55,940	60,690
November 07					535	520		15,600
December 07					555	545		16,350
January 08					675	615		18,450
February 08					745	710		21,300
March 08					815	780		23,400
Total 2007/08								155,790
2008 – 09					1,075	945		340,200
2009 – 10					1,255	1,165		419,400
2010 – 11					1,345	1,300		468,000

GRANTALOT
The Atlantis State Lottery Board
Windfall House
Gamester Square
Atlantis City
AC3 7VM



Jack Carter
 Chief Executive
 Nunsuch Leisure Arena
 Marathon Way
 Nunsuch UT5 6FS

5 November 2007

Dear Mr Carter

Grant award for Nunsuch Leisure Arena (NLA), Phase 2

I am pleased to be able to confirm that the Lottery Board (ASLB) has now approved the NLA's bid for support for Phase 2 of your project in the sum of £2,100,000.

The ASLB makes grant payments once each quarter in February, May, August and November, except at the practical completion stage of the project. ASLB's standard arrangements for release of the grant will apply, namely:

Project milestone	Payment amount and date
25% of total estimated outlay incurred *	25% of grant is paid in the following quarter
50% of total estimated outlay incurred *	25% of grant is paid in the following quarter
75% of total estimated outlay incurred *	25% of grant is paid in the following quarter
Practical completion achieved	Balance of grant is paid one month after practical completion.

* These percentages relate to the costs of each phase of a project, but excluding pre-contract professional fees, fundraising costs, planning fees and land purchase costs.

In the case of the NLA funding, a key condition will be the continued commitment by the Joint Board and partner clubs to the implementation of the agreed Sports Development Plan. This aspect will be monitored by Sport Atlantis acting as agents to the ASLB.

Full documentation, including the complete list of funding conditions, will follow shortly. I would stress that should any of these conditions not be adhered to, the ASLB may curtail its support and/or require full or partial refund of the sums paid. I would advise you that in order to take up this offer, the NLA must complete and return the ASLB acceptance form by 16 January 2008.

Yours sincerely

Ray Kavick

Ray Kavick
 Director of Award Distribution

Body and Soul Leisure

Managing Director: Nick O'Seer

*Exertion House
Alacrity Business Park
Atlantis City AC14 3NG*

Ms Val Ensia, Interim Treasurer
The Nunsuch Leisure Arena
Marathon Way
Nunsuch UT5 6FS

8 November 2007

c. c. Jack Carter, Chief Executive

Dear Ms Ensia

NLA Fitness Club income

Cath Mandoo has advised me of the Joint Board's disappointment with progress so far and the need to consider options to achieve faster membership growth, but really it is far too soon to be drawing definitive conclusions. Predicting membership levels for a new enterprise such as this can never be a precise science.

There are a great many factors affecting demand at a particular site, such as the age composition of the local population, the average disposable income in the area, lifestyle preferences, traffic congestion and, of course, the strength of the competition (ease of access to alternative facilities). Even the weather can have an effect in the short term.

The NLA does, of course, have outstanding fitness facilities, but Nunsuch is not a particularly wealthy district, compared to other parts of Utopia. It may thus take local people longer than in some other places to take up fully our first class service.

Average membership income is also very much a variable factor, as we cannot be certain of the mix as between full individual membership on the one hand, and the various categories of discounted memberships, such as family, off peak and corporate memberships on the other.

It's also important to note that fitness club membership can often turn out to be short-term, with some members tending to leave once they feel they've achieved their immediate fitness objectives. A club with around one thousand members may well see sixty or so members leaving each month. There needs to be constant effort to attract new recruits to replace the leavers, before any further growth can be achieved.

I do not believe that a general increase in Fitness Club charges would be at all advisable in present circumstances, as a large number of membership cancellations would almost certainly result.

I will be coming over to Nunsuch next week to discuss matters with Cath Mandoo, who will by then have returned to the NLA after she has completed for me a review of one of our other operations. I will let you have our conclusions on the prospects for future income at the NLA as soon as possible after that.

Yours truly

Nick O'Seer

Nick O'Seer, Managing Director

NUNSUCH LEISURE ARENA JOINT BOARD
 INTERNAL MEMORANDUM
 From: Jack Carter, Chief Executive
 To: Val Ensia, Interim Treasurer
 Date: 09 November 2007

Funding for Phase 2 capital costs

You will by now have seen copies of the very welcome confirmations of funding support for Phase 2 from both the Joe Hannesburg Trust and the Atlantis State Lottery Board. We can now be much more certain that Phase 2 will go ahead. Nunsuch will soon have a real showpiece on its hands, although it remains disappointing that the Board found it necessary at the July 2007 meeting, on the Chairman's recommendation, to trim back building specifications significantly to contain costs (as built into the current capital expenditure projection).

I promised to let you have details of the other funding sources for Phase 2 and these are as follows:

a) Nunsuch District Council

NDC's approved contribution of £125,000 is due to be paid to the Joint Board in April 2008.

As you know, NDC's capital contribution to the NLA is far smaller than UCC's. This situation arose because it was deemed to be to the overall advantage of both authorities for NDC to spend most of its capital resources (over £3.5 million) to finance the major share of the cost of the Nunsuch Parkway regeneration project.

b) Utopian Enterprise Board

This grant will be conditional on at least 30 jobs being created on the site as a whole (both phases). Taking into account fitness, sport and catering jobs, this condition should be easily met.

The UEB's General Manager is a regular golf partner of mine, and, when we last played together, he assured me over lunch that the delay in receiving formal approval should not be a cause for undue concern. Apparently, the regulations require the Minister for Regeneration to rubber-stamp this type of assistance. The UEB were about to start preparing the required application to the Ministry. I understand that, in most cases, ministerial consent is received within a few weeks of the submission being lodged.

The UEB is having to ration payments at present because of its serious budget constraints, so the General Manager expected that only £400,000 would be payable in 2008/09, pencilled in for August 2008. The balance of £250,000 cannot be released until August 2009, subject to satisfactory completion on site.

c) Local fundraising (£98,000 target)

Councillor Arkand is leading the local fundraising effort. He reports good progress in talking to local businesses and expects to be able to raise 50% of the target sum in the quarter ending 30 June 2008, and the remainder in the following quarter.

d) Utopia County Council – grant and loan

As I expect you know, UCC's approved overall capital contribution to the NLA totals £4,894,000. Of this, £778,000 will be available to help finance the remaining Phase 2 costs. This can be drawn down as and when needed to finance capital payments.

UCC has also kindly agreed to make available an interest free loan facility of up to £900,000. This can be drawn down as required to cover any variations in capital cash flow, but must be repaid in full by 30 September 2009. UCC has advised that it will cost them approximately 5% per annum in interest to make available this facility.

Further, please note the following point in respect of the Phase 2 contributions from the two local authorities. Should any additional capital contributions become required from NDC and UCC under the terms of the relevant agreements (or should any repayment become due to UCC), it is anticipated that such transactions will take place in the second quarter of 2009/10.

Finally, you asked about the pre-contract expenditure on professional fees for Phase 2, which is estimated to total £167,000 by 31 March 2008. I can confirm that all of this expenditure will be incurred before that date, whatever decision the Joint Board decides to make about the construction arrangements.

Jack

Jack Carter
Chief Executive

NUNSUCH DISTRICT COUNCIL

There's no place like Nunsuch!

Councillor Sam Arkand
28 Candid Crescent, Nunsuch Parva UT6 2SZ

Ms Val Ensia
Interim Treasurer
The Nunsuch Leisure Arena
Marathon Way
Nunsuch UT5 6FS

13 November 2007

Dear Ms Ensia

Nunsuch Leisure Arena – Fitness Club

It was good to have the opportunity to talk to you at length after last month's Joint Board meeting. All members of the Board are very pleased to have the benefit of your advice at what is a critical time for us at the NLA.

At the risk of repeating myself, I also hope that your involvement may help to persuade some of UCC's elected members to take a less parochial view of the NLA and to have more regard to the extent of our achievement in this hitherto neglected and deprived corner of the County. They perhaps need to be reminded that it was a joint meeting of the two cabinets that agreed the structure of the Joint Board at the outset, including parity of representation for the two authorities. The positive outcomes that the NLA has already started to generate will surely accrue to the credit of Utopia as a whole, not just to Nunsuch.

I'm writing now to set out in more detail my concerns about the Fitness Club membership figures. I haven't seen the October figures yet, but at the end of September we were 29 members short of our target, and, still more worrying, £1,214 down against the budgeted membership income for the month.

Jack Carter says he's sure there's not a major problem looming. However, these figures look plain enough to me. A less complacent attitude on Jack's part would be welcome, and would save me the trouble of having to deal with these issues myself. Part of the answer could be for him personally to ensure that BSL staff provide a more attentive and committed customer service. This could help to address the problem without any extra spending on our part.

If you project the September figures forward to 2010/11, we could by then be around 200 members short of our overall MTFP target and facing an annual income shortfall of over £70,000. This kind of outcome would cause dismay even amongst my closest colleagues on the District Council, who have always supported the NLA up to now. So it's essential that there's a clear plan as to what options we have to address matters.

As a subscriber to "Sport and Leisure World" (SLW), I was interested to see some national survey results they published about the levels of membership growth that could typically be expected at a new fitness centre. These indicated that, on average, 65% of the overall membership target should be achieved by the end of the first year of operation, with equivalent figures of 90% and 100% at the ends of years 2 and 3.

Even our MTFP targets seem to be well short of those percentages, so we may in any case have set our sights too low – it would be interesting to know by how much in money terms over the MTFP period compared with the growth targets published in SLW.

The SLW article also included the following figures for the expected breakdown between the various classes of membership at a typical fitness centre:

Full membership - individuals	44.50%
Full membership - family rate	6.50%
Off peak membership - individuals	14.40%
Off peak membership - family rate	2.40%
Concessionary membership rate	8.00%
Group membership rate	24.20%
	100.00%

Again it would be interesting to know whether our own breakdown of the various membership categories accords with this pattern, and whether there are useful conclusions that can be drawn from any differences.

Finally, the SLW article referred to the typical monthly attrition rate (i.e. percentage of members leaving) being 5% of the number of members at the start of the month in the early months of a new centre. We were clearly well above that level in September, so shouldn't we also be worrying about this aspect? I know for a fact that some of those members who've left did so because they felt they'd been treated in a very off hand manner by BSL staff, who seemed at the time to be more concerned about ensuring the success of the Junior Athletics Finals.

I've stuck my neck right out to champion the NLA and this has made me far from popular in certain quarters. I'm sure there are those who would like even now to stop us going ahead with Phase 2, and any reports of further financial problems could give them just the ammunition they're looking for.

I have, as you know, committed myself to reporting back personally to the Board on the options available to improve membership recruitment and retention and therefore look forward to receiving the comprehensive briefing note from you to enable me to prepare my proposals.

Yours sincerely

Sam

Councillor Sam Arkand

Body and Soul Leisure

Managing Director: Nick O'Seer

*Exertion House
Alacrity Business Park
Atlantis City AC14 3NG*

Ms Val Ensia, Interim Treasurer
The Nunsuch Leisure Arena
Marathon Way
Nunsuch UT5 6FS

16 November 2007

c.c Jack Carter, Chief Executive

Dear Ms Ensia

NLA Fitness Club income projections

Further to my letter of 08 November, I am now able to let you have our thoughts on future income projections.

I have to confess that our marketing drive to encourage local employers to take up group membership has been running rather behind schedule. However, in the last few days, we have had an encouraging response from several local firms. This gives me confidence that the total membership can still reach 815 by 31 March 2008 and that the original projection of growth in numbers of members over the following three years is still realistic.

Cath and I consider, on the basis of experience to date, that the average membership income should now stabilise at £28.24 per month (the October figure). We therefore see this as offering the best starting point for future projections.

As previously stated, any fee increases would in our opinion prove counterproductive at this stage, unless accompanied by improved service levels, as such increases would be likely to result in additional resignations and downgrades to cheaper membership categories.

Given the lower number of members as at 01 November 2007 and the lower average monthly income figure, I would now estimate membership fee income at £91,000 only for the period from that date through to 31 March 2008.

We would suggest that the Joint Board considers the following independent options for improving recruitment:

1. Additional marketing effort

We have always argued that the current marketing budget is too low and certainly well below what a commercial operator would be prepared to spend. We are really just scratching the surface at present and would suggest spending an additional £10,000 in each of the next three financial years. I will let you have detailed proposals for targeting particular market segments, if this approach is of interest to you.

On the basis of our experience elsewhere, we would expect this level of additional spend, together with greater focus by our on-site team, to increase membership numbers above the MTFP levels as follows:

By 31.03.2009	76
By 31.03.2010	130 (cumulative)
By 31.03.2011	160 (cumulative)

These increases would take total membership to 1,505 by 31 March 2011, well above the original target of 1,345, but still within the physical capacity of the Fitness Studio.

2. Special offers

We always have to be careful about introducing any special offers to attract new members as we could well upset the core existing membership if we are seen to be too generous. The best approach here would, we think, be to offer one month's free membership to all new members joining **during 2008/09 only**, providing they complete standing order mandates. We would expect this approach to result in the following number of additional members:

Anticipated gross number of new members ("joiners") to be recruited in 2008/09:

No. of joiners already allowed for in preparing the MTFP :	545
Additional number of joiners expected to result from special offer:	150

Average number of additional members in each year (allowing for attrition):

2008/09	50
2009/10	85
2010/11	60

3. Improved service level

Many fitness club members value a more bespoke service with greater attention to their particular needs from a personal trainer. We cannot provide this level of service at present. In order to do so from 01 April 2008, we would need to take on an additional full time Fitness Coach, at an annual cost of £16,000.

We believe that by taking this approach we could increase membership fees progressively over the next three years as compared with the current levels. We have in mind a 4% increase from 01 April 2008, a further 2% from 01 April 2009, and a final 2% from 01 April 2010. We believe the better service level would mean there would be no net adverse effect on membership numbers.

I trust that these proposals will be of interest to the Joint Board and look forward to discussing them with you. You can rest assured that all of us at Body and Soul will continue to do our utmost to ensure that the NLA achieves its full potential.

Yours truly

Nick O'Seer

Nick O'Seer, Managing Director

Alex - please adjust the MTFP for the revised projections shown in paragraphs 2-5 on the first page of this letter. The three proposals for improving recruitment (points 1-3) require further consideration and should not be reflected in the revised MTFP.

Val

NYE ROBEBY AND PARTNERS
Chartered Surveyors
 Prospectus House
 Masterplan Boulevard
 Utopia City UT1 7GK



Mr Jack Carter
 Chief Executive
 The Nunsuch Leisure Arena
 Marathon Way
 Nunsuch UT5 6FS

19 November 2007

c.c Ms Val Ensia, Interim Treasurer

Dear Mr Carter

Nunsuch Leisure Arena – Phase 2 construction tenders

I am writing to confirm our telephone conversation about the Phase 2 tenders, which were opened last Tuesday in the presence of three members of the Joint Board (Councillors Sam Arkand and Sid Knee, and Mr Al Jeers).

As expected, three tenders were received from potential main contractors. These were:

Contractor A:	£4,097,264
Contractor B:	£4,216,197
Contractor C:	£3,802,035

The above figures do not include any allowances for professional fees or for catering and sports hall equipment.

Having examined all of the tenders in detail, I think that we can now rule out the bids from Contractors A and B, as their prices are so far above Contractor C's price (and even further above the pre-tender estimate). Their response no doubt reflects the current high level of demand for building work in this area.

Contractor C is Hercules Construction. Hercules is a very well established firm in this region and has completed various major projects recently. It has a good reputation for completing projects on time, and has put forward 18 May 2009 as the estimated completion date. If the Joint Board decide to appoint a main contractor, I expect to be recommending Hercules, subject to detailed checking of its tender.

The fourth tender came in from Gulliver Associates, Project Managers. Gulliver state that they would expect to procure the whole project, including equipment and all remaining uncommitted professional fees (including their own) at an estimated total cost of £4,012,000. Their intended completion date is 15 June 2009.

Gulliver claim that their approach has the potential advantage of greater flexibility and lower cost as they would expect to use many smaller local

contractors. They say that there should also be the opportunity, if needed, to accommodate some design changes before tenders are let for individual elements of the work.

As Gulliver haven't undertaken any work in this part of Atlantis before, I have had no personal experience of them, but have no reason to cast doubt on their claims. The proposal they have put forward represents excellent value for money, but the Board will need to be satisfied that the managed project approach will be suitable for a complex scheme such as this.

You asked all of the tenderers to state their approximate cash flow expectations. Hercules and Gulliver have provided information as follows:

Quarter no	Period	Proportion of tender value	
		Hercules %	Gulliver %
1	April – June 2008	7	5
2	July – September 2008	23	15
3	October – December 2008	27	25
4	January – March 2009	23	29
5	April – June 2009	17	23
6	July – September 2009	3	3
		100	100

If Hercules is chosen, I would expect the cash flows on fees and equipment to work out as follows:

- a) fee expenditure to follow the same pattern as the cost of works
- b) expenditure on equipment to be incurred 50% in quarter ending 30 June 2009 and 50 % in quarter ending 30 September 2009.

As I'm sure you're aware, the actual cashflow experienced on a project such as this can be influenced by many external factors such as weather conditions, availability of materials, etc, so it will be wise to sound a note of caution when reporting figures based on the above percentages.

I trust that the above information will be sufficient for your current purposes, but please let me know if you need anything further.

Yours sincerely

Nye Robey

Nye Robey
Senior Partner

UTOPIA COUNTY COUNCIL – INTERNAL E-MAIL

From: Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

To: Alex Andrea, Senior Accountant (Technical)

Date: 20 November 2007, 16.57

Subject: Nunsuch Leisure Arena – Phase 2 capital costs and funding report

Now that we have details of the tenders received for Phase 2, can you please proceed to prepare the confidential report on capital costs and funding for the special meeting of the Joint Board on 11 December 2007. Use the figures in the October 2007 projection as the starting point for your analysis of funding. The draft report will need to be available on 29 November 2007.

The report will need to cover the following items:

- (a) A brief introduction setting out the purpose of the report, the progress of the scheme, and a note of the overall capital costs and funding for those elements of the scheme (both phases) that have already been spent or committed to date.
- (b) A summary of the approved/expected sources of funding for the further planned spending on Phase 2. In this section, please set out the current status of each contribution and any conditions that we know will apply. Include comments and conclusions as to the degree of difficulty in meeting such conditions.
- (c) Details of the tenders received, showing:
 - (i) the estimated costs (in £'000s), of proceeding with the Hercules and Gulliver offers, as compared with Sarah Yavo's October 2007 projection, and
 - (ii) the allocation of the resulting cost variances to the two local authorities.

(In the case of the Hercules bid, allow for the cost of professional fees from 01 April 2008 onwards, and the cost of equipment, as shown in the October 2007 projection.)

- (d) An annex showing the quarterly cash flows of payments and funding that will apply for both the Hercules and Gulliver options, including any use that will need to be made in both cases of the UCC loan facility.
- (e) Details of the financial approvals that would need to be obtained in both cases before either the Hercules or Gulliver bids could be accepted.
- (f) A discussion of the potential benefits and risks arising from the Hercules and Gulliver bids, explaining the importance that you would attach to each of them.
- (g) Your conclusions and your recommendation to the Joint Board as to how it should proceed.

Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

NUNSUCH LEISURE ARENA JOINT BOARD
INTERNAL MEMORANDUM
From: Jack Carter, Chief Executive
To: Val Ensia, Interim Treasurer
c.c. Alex Andrea, Senior Accountant (Technical), UCC
Date: 21 November 2007

Fitness Club membership – further comments

Nick O'Seer has let me have a copy of his letter to you of 16 November 2007.

I have to say I'm not really surprised that his response to the temporary membership recruitment issues is to suggest proposals for the Joint Board to spend more money or indulge in free membership give aways. It's easy to spend other peoples' money.

We only have his word for it that these outlays will actually increase membership levels to the extent he's suggested. If we adopt any of them, we, not BSL, will face the inevitable criticism if they prove unsuccessful.

There are some other points you need to consider in evaluating his proposals:

- a) The extra membership numbers in his Option 1, if achieved, would certainly require additional staff resources to ensure that service levels are at least maintained. I believe that an additional half time Fitness Coach would be required from 01 April 2010 with this Option.
- b) Any extra Club members will also incur additional variable costs in terms of membership packs, laundry and additional hot water consumption. Sarah Yavo advised me that she had worked out these items to amount to £3 per month per member.

Once you've taken these extra costs into account, I doubt that there would be much financial benefit from any of Nick's proposals, even if his optimistic forecasts did come true.

It's clear to me that generating more income is the only realistic way to address the NLA's financial issues, since such a high proportion of our running costs are effectively fixed. I wish that I personally could devote more time to ensuring that BSL demonstrate more evidently the commitment, imagination and flair necessary to maximise our income. However, as you will appreciate, I am currently more than fully occupied on other matters, in particular sorting out the development and funding issues for Phase 2.

In any event, I'm not sure that the Chairman would welcome more input from me in relation to BSL at present, as, these days, he always seems to prefer to deal with them personally.

Jack

Jack Carter, Chief Executive

Alex - Can you please also note the information you requested on future insurance premiums. Nye Robey has now calculated the rebuilding costs for insurance purposes. In accordance with my discussions with Nye and our insurers, can you now please increase the MTFP provision for insurance premiums by £6,000 for each of 2007/08 and 2008/09, by £10,000 for 2009/10 and by £12,000 for 2010/11.

Jack

UTOPIA COUNTY COUNCIL – INTERNAL E-MAIL

From: Sandy Aygo, Principal Auditor (Contracts)

To: Alex Andrea, Senior Accountant (Technical)

Date: 22 November 2007, 15.59

Subject: Nunsuch Leisure Arena - Phase 2 tenders

Private and confidential

I was very interested to have the opportunity to comment on the different offers that you have received for the construction of Phase 2 of the Arena.

It's a pity that it was not possible to construct Phase 2 as a continuation of the Phase 1 contract as this would have provided significant economies in terms of site management, etc. You're now faced with the prospect of new contractors having to set up operations on site from scratch with the potential consequential costs and delays.

From my experience, a complex project such as yours could well involve various design changes during the construction period because of the number of different interests involved.

The two offers that you are now considering for Phase 2 represent very different approaches with different risk elements.

Hercules Construction

If Hercules is appointed as main contractor, you should note that it has a reputation for being very thorough in following up contractual claims for any extra works or variations from the original specification. The County Council itself has experienced this in relation to the Eldorado College project, which ended up well over budget.

Gulliver Associates

If Gulliver are selected, they will be the Joint Board's project managers, not their main contractor. They will then, on the Joint Board's behalf, select a range of contractors, by tender or negotiation, to undertake individual elements of the project.

The Joint Board could obtain significant savings by adopting this managed project approach, but would also have to bear the risk of any factors leading to delays or higher costs.

With a main contractor in place, you do have a firm total price for the works, as now specified. With the managed project on the other hand, you will be reliant on the estimates provided by Gulliver for what appears to be a very complex project. There is, therefore, no certainty as to what the different elements may actually cost once the individual contracts have been let.

In assessing the risks associated with this approach, you may wish to consider, for example, the level of demand for construction services in the Utopia region during the build period and whether any upward pressure on prices can be expected from this factor.

Given that there will be a number of individual contractors with this arrangement, you should also think about the potential problems that could arise if one or more of them runs into financial difficulty.

Whenever a project like this gets under way, all parties are likely to express confidence that the end result will meet their expectations, but there are usually some aspects of work that turn out to be unsatisfactory. With a managed project, the Joint Board may itself have to try to pin down responsibility for any shortcomings between the project managers and the various individual contractors. As these parties are all likely to be relatively small organisations, I am sure you will be able to recognise the types of problem that could arise should it prove necessary for the Joint Board to enter into any arbitration or litigation proceedings.

Finally, with a managed contract, the client may need to undertake more intensive monitoring of progress and costs.

My own conclusion is that the Joint Board should think very carefully before latching onto any marginal savings that Gulliver's managed project approach may appear to promise at this stage. Unless the offer from Gulliver is at least 8% cheaper than the Hercules bid, I, personally, would favour the selection of Hercules.

Sandy Aygo
Principal Auditor (Contracts)

UTOPIA COUNTY COUNCIL – INTERNAL E-MAIL

From: Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

To: Alex Andrea, Senior Accountant (Technical)

Date: 23 November 2007, 12.13

Subject: Nunsuch Leisure Arena – Fitness Club membership fee income

Now that we've received the promised information from Jack Carter and Nick O'Seer, I'd like you to proceed to prepare the briefing note for the Chairman on membership recruitment issues. As part of this you will need to address the issues set out in the Chairman's letter of 13 November 2007.

The contents of the briefing note will need to cover the following points:

- a) A comparison between the original MTFP projection of membership fee income and the income targets that would have resulted if the "typical growth pattern" reported in Sport and Leisure World had been applied. Use the MTFP 2007/08 average membership income rate of £30.00 per month. Include any comments as to why the NLA may not be expected to exhibit such a "typical growth pattern".
- b) A statistical analysis to demonstrate whether there are any significant differences between the typical breakdown of membership in the various categories as reported in Sport and Leisure World and the actual breakdown observable at the NLA, including your conclusions from this analysis.
- c) Details of:
 - i. The cumulative shortfalls of membership numbers and income up to 31 October 2007 as compared with the levels allowed for in the MTFP.
 - ii. The average monthly income per member up to October 2007.
 - iii. The monthly membership attrition rate up to 31 October 2007 (as a percentage of the number of members at the start of each month).
 - iv. Any specific known factors that may have had influence on recruitment levels at the NLA, together with your comments on the average monthly income per member and membership attrition rates.
- d) A revised projection of membership fee income over the four years of the MTFP, based on the actuals to 31 October 2007 and the information from BSL. Show the variances from the original MTFP figures and explain any reservations that you may have.
- e) A projection of the financial implications of each of the three options put forward by BSL to improve membership recruitment, together with your evaluation of each of these options.
- f) A note of any other budget headings in the MTFP that may be affected by increased membership levels, apart from those mentioned by Nick O'Seer and the Chief Executive. (Any such items can be studied in more detail later, so do not attempt to quantify them now).
- g) Your conclusions about these membership issues and a recommendation as to which, if any, of BSL's options should be adopted. You do not need to consider at this stage whether some combination of the three options may be desirable – we can discuss that at a later stage.

Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

NUNSUCH DISTRICT COUNCIL

There's no place like Nunsuch!

Jan Eva, Head of Finance
Council Offices, Privation Street, Nunsuch UT7 9DT

Ms Val Ensia
Interim Treasurer
The Nunsuch Leisure Arena
Marathon Way
Nunsuch UT5 6FS

26 November 2007

Dear Ms Ensia

Nunsuch Leisure Arena – Financial support

I am writing to let you know that the matter of financial support for the revenue costs of the Nunsuch Leisure Arena was considered at a meeting of the District Council's Budget Priority Working Party held last Friday (23 November 2007).

The Working Party was formed, under the chairmanship of the Cabinet Member for Finance (Councillor Bryn Deecey), to identify potential areas of saving in view of the adverse government grant settlement for NDC that has now been announced.

As part of an authority wide package of savings measures, the Working Party will be proposing to NDC's Cabinet, that, as is already the case with Utopia County Council, the revenue support contributions from NDC to the NLA Joint Board must be capped at not more than 4% above the levels shown for each year in the MTFP. Assuming that the Cabinet approve this proposal, the Joint Board's own spending will need to be limited accordingly.

The Working Party had hoped to have the opportunity to hear the views of Councillor Arkand before reaching any conclusions on this matter, but as he did not attend, it was decided to proceed on the basis of the recommendation set out above.

The above arrangements will not affect the payment of NDC's remaining capital contribution to the NLA as previously advised.

Yours sincerely

Jan Eva

Jan Eva
Head of Finance

Note for Alex Andrea, Senior Accountant (Technical), UCC

Alex

Can you please note the following information phoned through today by Cath Mando, which I understand you need for your MTFP budget revision.

It's clear that we will not be able to continue with the current favourable gas tariff, as the supplier had placed us in the wrong consumption category. Cath has discussed the effect of this problem with BSL's head office. Their best estimate is that the extra cost of placing the NLA in the correct supply band will be £13,000 for the remainder of 2007/08, £25,000 for 2008/09, £36,000 for 2009/10 and £45,000 for 2010/11. BSL will be checking out alternative suppliers and economy measures, but Cath doesn't hold out too much hope of success.

She also had some good news - the fee income for fitness classes is definitely proving to be higher than we thought. She suggests that the estimates should be increased, by £3,000 for 2007/08 and £5,000 per annum for the three subsequent years.

Cath also advised me of BSL's agreement to the adjustment to be made to their management fee following the Joint Board's decision to seek tenders for a separate bar and catering concession. BSL's basic management fee will be reduced by £3,000 for 2009/10 and by £5,000 for 2010/11 onwards. Nick O'Seer will be confirming this in writing.

Separately, Jack Carter has asked me to let you have a breakdown of the Fitness Club membership categories as at 31 October 2007, as follows:

Full membership - individuals	249
Full membership - family rate	37
Off peak membership - individuals	79
Off peak membership - family rate	12
Concessionary membership rate	42
Group membership rate	86
	<hr/>
	505

Winnie Pegg
Secretary to NLA Chief Executive
27.11.07

UTOPIA COUNTY COUNCIL – INTERNAL E-MAIL

From: Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)

To: Alex Andrea, Senior Accountant (Technical)

Date: 27 November 2007, 08.55

Subject: Nunsuch Leisure Arena – Medium Term Financial Plan and related issues

As mentioned in my e-mail of 25 October 2007, I'd now like you to prepare a discussion paper (for my consideration only) in relation to the NLA's revenue finance and related management issues. Please include the following elements:

- a) A table showing the revised income and expenditure budget for each year of the MTFP period, after allowing for the effect of all of the known variances.
- b) A table showing the revised financial support requirement from the two authorities, (before considering NDC's letter of 26 November 2007).
- c) The amounts of any funding shortfalls for the Joint Board that could be expected to result if the recommendations from NDC's Budget Priority Working Party were to be implemented.
- d) Your assessment of whether any of the current MTFP provisions for future maintenance, depreciation and working balance could reasonably be reduced, together with a note of the potential implications of so doing.
- e) The wider implications as you see them for relationships between the Joint Board and the two funding authorities if NDC confirms the action proposed by its Working Party, together with your assessment as to how the Joint Board can seek to create a better understanding with the two authorities over future revenue support.
- f) Your assessment of the effectiveness of current management arrangements within the Joint Board and of the state of the relationship between the Joint Board and BSL.

Val Ensia, Interim Treasurer (Nunsuch Leisure Arena)