



DERBY CITY COUNCIL

COUNCIL CABINET
13 JANUARY 2009

Report of the Corporate Director for
Environmental Services

ITEM 10

Municipal Golf Contract

SUMMARY

- 1.1 The market for municipal golf has been in steady decline since the early 1990's. A strategic review of our golf courses was undertaken by the Golf Consultants Association, to assess market conditions, review our performance and consider our options for the future.
- 1.2 The consultant's summary of the current situation is:
- Trading performance has declined markedly in the past decade due to increased competition, and the Courses no longer produce an operating surplus.
 - Financial performance will not change for the better until significant investment is made in the Courses and their facilities
 - The two Courses are worth investing in. They are under performing but both have huge potential with good base facilities, good locations and extensive catchments
 - £1million to £2.5 millions of investment in facilities is required

RECOMMENDATION

- 2.1 Advertise the opportunity for golf course operators to submit competitive tenders under OJEU rules for the operation of the Sinfin and Allestree golf courses. The selected tenderer would be offered a minimum 25 year lease and would be required to undertake an agreed investment programme and maintain public access to the golf facilities.

REASONS FOR RECOMMENDATION

- 3.1 Trading deficits would be eliminated and a lease rent would be received.
- 3.2 Public access to golf in Derby would be continued.
- 3.3 Improved leisure venues for the City would be provided.
- 3.4 This is an opportunity to provide enhanced golf training facilities in a safe environment which will encourage new entrants to the game

SUPPORTING INFORMATION

- 4.1 Appendix 2 - Executive Summary from the consultant's report
- 4.2 Appendix 3 - Use of the Golf Courses
- 4.3 Appendix 4 – Golf Course Income
- 4.4 Appendix 5 – Summary of Main Strengths, Weaknesses, Opportunities and Threats

OTHER OPTIONS CONSIDERED

- 5.1 Status quo
This would see a continuing decline and an increasing level of subsidy from the Council.
- 5.2 Re-let on a 5 year medium term contract.
Continuing decline of the Courses would be inevitable.
- 5.3 Provide in-house service with capital investment through borrowing.
The sums required are significant and would produce liabilities for future years. Whilst this is not considered to be the best option, should suitable bids not be forthcoming this option should be pursued.
- 5.4 Retain one golf course and close the other or close both courses
This would be highly controversial noting the consultants' opinion that both Courses are worth investing in and would result in the loss of leisure facilities in the city and increased travel to facilities outside the city (carbon footprint consequences). Additionally, because the courses would revert to parkland there would still be maintenance costs whereas the development of the courses would result in the generation of income for the Council.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 - Executive Summary from consultant's report Appendix 3 - Use of the Golf Courses Appendix 4 – Golf Course Income Appendix 5 – Summary of Main Strengths, Weaknesses, Opportunities and Threats.

IMPLICATIONS

Financial

- 1.1 The Council would receive an annual rent for leasing the Courses
- 1.2 The annual operating losses would be eliminated
- 1.3 Capital investment would be made to improve the facilities

Legal

- 2.1 The courses would be leased to a private company

Personnel

- 3.1 There are 15 permanent and 8 casual staff at the golf courses. Should the management of the Courses pass to a private company, TUPE will apply.

Equalities Impact

- 4.1 None

Corporate objectives and priorities for change

- 5.1 The proposed development of the courses would contribute to the following Derby City Council priorities for 2008-2011
 - Making us proud of our neighbourhoods
 - Supporting everyone in learning and achieving
 - Helping us all to be healthy active and independent
 - Giving you excellent services and value for money

Executive Summary from the Consultants Report

We have been asked to provide the Council with a strategic review of its two municipal golf courses, Allestree Park and Sinfin. Allestree Park Golf Course lies 3 miles to the north of the city and comprises a short but hilly parkland course around the imposing Allestree Hall. The course has fine views for miles around. Clubhouse facilities are within a small part of Allestree Hall. Much of Allestree Hall has fallen into disrepair and the Council is still looking for a long term sustainable use for it. Sinfin Golf Course lies 3 miles to the south of the city and is in a more urban/industrial setting. It is adjacent to the Rolls Royce factory. The course is long but flat. It has a pavilion style clubhouse which is leased to the resident golf club. A separate building houses the golf shop.

Both courses have considerable history and are mature. In recent years they have been run by the Council in-house with the exception of the food and beverage elements which are under the control of the resident members clubs. The Council took back operational control of the two courses a few years ago from Cannons, the health club operator, who had previously run them on a short term management contract. Trading performance has declined markedly in recent years to the extent that the golf courses used to produce the Council a net annual surplus. From 2004 this has turned into a net annual deficit. In 2004 and 2006 this amounted to around £55,000 but in 2007 it doubled to around £114,000. The business appears to be heading for terminal decline unless changes are made.

Firstly what are the reasons for this decline and secondly can it be reversed?

Regarding the first question it is important to assess the national trends in golf. The golf market experienced a boom in the late 1980s/early 1990s resulting in a large number of new courses being built. The last few years have generally been difficult for the industry with fierce competition between venues to attract customers. This has resulted in traditional private membership clubs being more willing to take visitors as they start to see their membership numbers and waiting lists dwindle. In addition proprietary golf venues (i.e. those run for profit) have been much more aggressive in their marketing to attract customers. Furthermore there has been a trend for some golfers to play less partly as a result of changing lifestyles and in particular a lack of time to play golf.

The result has been that many municipal golf courses have suffered because golfers who used to play at them now have a wider choice of affordable golf. Furthermore many local authorities have simply not invested enough in recent years to keep their golf courses competitive in the marketplace and fit for purpose. It is often the case that municipal golf courses look tired and run down compared to other golf courses in a locality. It is not surprising that some local authorities have not invested fully in their golf courses because they have limited funds available for capital projects and golf is not regarded as essential or high priority. It is certainly our view that both Allestree Park and Sinfin are in real need of capital investment. In particular the clubhouse facilities are poor by comparison with many local competing venues.

Pricing for golf at the two venues is on the low side and the Council certainly is providing affordable golf for the local community however there has been an alarming fall in usage (i.e. total annual rounds played) over the last few years which is over and above industry norms for municipal golf courses. Running costs are still rising yet revenue is falling so the courses have gone from producing net annual surpluses to net annual deficits. Why has volume fallen over and above industry norms? We feel that there are a number of reasons: a lack of capital investment resulting in tired looking venues, lack of practice facilities to encourage new players, a management structure which is not working, a shortage of staff both on and off the course, poor 'first impressions', variable course presentation standards, minimal marketing spend and poor IT infrastructure resulting in outdated booking systems and inflexible pricing.

Although there are a number of factors contributing to the decline there are some very positive factors. Both courses occupy good trading locations for golf and this is a key ingredient for success. Sinfin in particular appears to have limited competition and there is no driving range for miles around. Also both venues appear to have staff with a generally positive attitude but the way that the business is set up and the lack of funding and resources are having adverse effects on trading.

We feel that in the long term both venues ideally need much improved clubhouse facilities. At Allestree Park this probably means a separate golf clubhouse outside of the mansion house. At Sinfin it appears that there is a real opportunity to create a floodlit driving range on the site subject to obtaining the necessary statutory consents. Its creation would necessitate a new access point and the realigning of some of the existing golf holes but it does open up the opportunity of relocating the existing clubhouse by building a new one to be linked with the much needed driving range.

It could take some time for new clubhouses and a driving range to come to fruition as a result of the time needed to determine their feasibility and viability, to arrange funding, to obtain statutory consents and to build them. In the meantime there are plenty of improvements that could be made to improve presentation standards of the venues, to reorganise the management structure, to improve efficiency and to improve marketing and pricing policies along with other initiatives. This in turn should improve financial performance in the interim but not to an extent that substantial levels of capital expenditure are no longer needed to secure the long term future of the venues as golf courses.

We are strongly of the view that if the Council does not facilitate substantial capital investment into the two Venues in the long run trading will decline further. The properties need to be brought up to a standard where they can compete in the local marketplace. This along with focused management will allow prices to rise (but still maintaining the ethos of affordable golf for all) and volume to increase. We feel confident that with careful and targeted investment these two golf venues are capable of being viable long term businesses.

A key question is whether the Council is willing (or indeed is able) to provide a substantial level of funding to improve the two venues. If it is unable to do so, then it seems that the only alternative is for the Council to seek a third party operator to make the investment as a partner with the Council.

Broadly we feel that strategically there are four main options open to the Council in terms of the long term future of the two golf courses.

The first option is that the Council could continue to run the operation in-house. It could implement a number of the strategies that we have outlined to improve the management structure, presentation standards, marketing, booking systems and pricing and operational efficiencies. Fundamentally however it needs to commit to the idea of providing the necessary capital investment for the long term. The required investment could conceivably be in the range of £1 million to £2.5 million, depending on what is done and viability.

The second option is for the Council to grant a management contract to a specialist golf course operator to run the courses. Realistically we do not see this as a good option. Management contracts rarely work well for municipal golf courses, and significantly, do not provide the contractor with sufficient interest to justify long term investment.

The third option is for the Council to grant a lease to a specialist golf course operator. It would be the responsibility of the specialist golf course operator to invest in the two venues to improve them for their long term viability. The Council could specify that it is not in a position to provide any funding for capital improvements and so it would be the responsibility of the operator to provide the necessary funding. If the Council did wish to provide some funding then it can do so on a joint basis with the chosen operator. Naturally if the Council does provide some funding then it can widen the scope for improving the golf courses over and above that which the operator would have done had he had to fund all the works himself.

We are aware of a handful of golf operators who we know would almost certainly be very interested in leasing the two golf courses. They are specialist chain golf operators who understand affordable pay and play golf well together with non-profit making leisure trusts who have experience of running municipal golf courses. The length of lease that such operators require depends on the amount of capital investment that they have to make. If the level of investment from them in the early years was say £1 million plus then most would require a lease term in the order of 40 to 60 years. Occasionally the lease term can be shorter, say 25 years. The courses could be let either on an annual rental basis or with the tenant paying the Council a premium on the signing of the lease with no annual rent thereafter. The most common arrangement is for the tenant to pay an annual rent. It is difficult to specify with accuracy the likely level of rental bids that the Council might receive for its two golf courses because there are a variety of variables to take into account. From our past experience of helping other local authorities lease their golf courses, if the tenant is expected to provide all necessary capital investment then the rent is likely to be anything from a nominal sum up to say £50,000 per annum per course. Normally rents are stepped over the first five years to allow for the investment to take place and for trade to pick up.

We are confident that for Sinfin most operators would be interested in building a driving range and we feel that this could be a real benefit for the local community and for encouraging new people into the game. As an alternative source of funding some of the operators would be very interested in using inert fill material to improve Sinfin, particularly in the building of a driving range. This has many advantages and some drawbacks and the Council would need to carefully assess these before committing to any scheme that made use of inert fill material.

The fourth option is for the Council to sell the golf courses outright and therefore have no further interest in Municipal golf. Typically reasonable quality provincial 18 hole proprietary golf courses with clubhouses that are freehold sell within the range of £1 million to £2 million. Given the existing poor trading performance at both golf courses and the need for capital investment then if they were sold each would be adversely affected by these factors in terms of price achieved.

Ultimately we feel that the Council has two choices. Either it is prepared to invest in the two golf courses and therefore could continue to run them for the long term or it is not in a position to make the necessary capital investment. If the latter is the case and the Council wishes to retain an element of influence on how the venues are run (i.e. affordable open to all golf) then the only real option is for the Council to seek a third party specialist golf operator to invest in facilities in return for the right to operate them under a mid to long term lease. In our view the worst outcome, from the perspective of the golf venues themselves as potentially viable long term operations, would be for the Council to make the decision to do nothing in terms of capital investment and attempt to carry on hoping that things will improve. If anything the golf market is likely to get tougher as time goes by, customer expectations will continue to rise and the Council is highly likely to see the golf courses producing significant annual deficits year on year.

Extract from the Consultant's Report

5.6 The 'Volume' Variable for Allestree Park and Sinfin

5.6.1 We have been provided with some very useful annual usage data showing trends for the last 16 years from 1991 to 2007. In respect of green fee usage for the two courses the table below shows a very alarming drop in green fee volume over this period. Roundage has more than halved and this will have had a detrimental effect on green fee revenue in real terms. The golf industry as a whole has seen average roundage per course fall but not by this margin.

	1991 - Green Fee Rounds Played	1998 - Green Fee Rounds Played	2007 - Green Fee Rounds Played
Allestree Park	36,363	24,201	15,257
Sinfin	34,692	19,520	13,234
Combined	71,055	43,721	28,491

5.6.2 We have also been provided with some very useful annual usage data showing combined usage – green fee rounds and season ticket rounds for the period 1999 to 2007. The last five years are as follows:

Allestree Park	2003	2004	2005	2006	2007
Green Fee Usage	20,511	18,469	20,011	16,336	15,257
Season Ticket Usage	15,742	13,525	13,342	13,583	11,38
Total Usage	36,253	31,994	33,353	29,919	26,644

Sinfin	2003	2004	2005	2006	2007
Green Fee Usage	21,723	17,097	19,027	16,193	13,234
Season Ticket Usage	19,235	17,988	19,065	18,795	14,604
Total Usage	40,958	35,085	38,092	34,988	27,838

Allestree Park + Sinfen	2003	2004	2005	2006	2007
Green Fee Usage	42,234	35,566	39,038	32,529	28,491
Season Ticket Usage	34,977	31,513	32,407	32,378	25,991
Total Usage	77,211	67,079	71,445	64,907	54,482

5.6.3 For 2003 I would have expected good quality municipal courses in strong trading locations (i.e. close to relatively large population centres as these courses are) to be showing total annual roundages in the order of 38,000 to 45,000 per annum. Allestree Park was just short of this at 36,253 and Sinfen fell within the range at 40,958.

5.6.4 Over the last five years from my experience of seeing the actual roundage figures at a substantial number of municipal courses in my view the better ones might have seen annual roundage fall by around 5,000 in 2007. Allestree Park is much worse than this. Roundage from 2003 to 2007 fell by almost 10,000 – a drop of 27% in volume. Sinfen is even worse: roundage from 2003 to 2007 fell by over 13,200 and a corresponding drop of 32%.

5.6.5 The above trends are very worrying. The businesses appear to be heading for terminal decay. Given the relatively good trading locations (i.e. close to substantial population centres) they should not be trading as poorly as this. A shake up is needed. Carrying on as you are with incremental changes will not solve the problem. A radical rethink about how the whole operation is run and funded is needed to get these businesses thriving again.

Extract from the Consultant's Report

5.7 Total Golf Revenue Figures (excluding VAT)

5.7.1 We have also been provided with some useful annual revenue data for the two courses from 1991 to 2007. As discussed earlier total golf revenue figures are a function of the average price per round multiplied by total annual roundage. The revenue figures for the last five years are as follows:

Allestree Park	2003	2004	2005	2006	2007
Green Fee Revenue	£154,574	£143,261	£164,731	£144,815	£134,839
Season Ticket Revenue	£62,082	£61,460	£69,245	£83,189	£62,929
Total Revenue	£216,656	£204,722	£233,976	£228,004	£197,768
Average Price Per Round	£5.98	£6.40	£7.02	£7.62	£7.42

Sinfin	2003	2004	2005	2006	2007
Green Fee Revenue	£154,999	£124,976	£146,367	£135,780	£111,698
Season Ticket Revenue	£76,922	£78,440	£76,589	£71,479	£75,226
Total Revenue	£231,921	£203,417	£222,957	£207,259	£186,924
Average Price Per Round	£5.66	£5.80	£5.85	£5.92	£6.71

Allestree Park + Sinfin	2003	2004	2005	2006	2007
Green Fee Revenue	£309,573	£268,238	£311,099	£280,595	£246,537
Season Ticket Revenue	£139,004	£139,901	£145,834	£154,668	£138,156
Total Revenue	£448,578	£408,138	£456,933	£435,263	£384,692

5.7.2 My main observation on the above revenue figures is that annual revenue in the order of £200,000 per annum per course is low. The figures are however fairly consistent with many other municipal golf courses in the Midlands and the north of England. Good quality private sector operators of municipal courses would probably be looking to increase annual revenue per course to around £300,000 per annum (and maybe more) within a reasonably short period of time. They would without doubt invest in improving the presentation of the courses and clubhouses to achieve this.

6. SUMMARY OF MAIN STRENGTHS, WEAKNESSES, OPPORTUNITIES & THREATS

For Allestree Park	For Sinfin
Strengths: <ul style="list-style-type: none"> ☐ Demographic location ☐ Panoramic views ☐ Parkland setting around Allestree Hall ☐ Historic usage good ☐ Staff attitude ☐ Affordable golf 	Strengths: <ul style="list-style-type: none"> ☐ Demographic location ☐ Limited nearby competition ☐ Easy walking course (not hilly) ☐ Staff attitude ☐ Affordable golf
Weaknesses: <ul style="list-style-type: none"> ☐ Variable course presentation standards ☐ Hilly (but compensated by shortness) ☐ Shortage of staff (both on and off course) ☐ Lack of investment in recent times ☐ Poor signage ☐ Poor clubhouse facilities within Allestree Hall ☐ Marketing ☐ Ageing season ticket holders ☐ Lack of good teaching facilities ☐ Low junior participation ☐ Food & beverage under Club's control ☐ Fragmented management structure ☐ Significant fall in usage in recent years ☐ Very low annual golf revenue ☐ Annual trading deficit ☐ Business in decline 	Weaknesses: <ul style="list-style-type: none"> ☐ Nearby catchment population 'modest means' ☐ Sense of arrival ☐ Variable course presentation standards ☐ Shortage of staff (both on and off the course) ☐ Lack of investment in recent times ☐ Tired off course facilities ☐ Operational layout ☐ Marketing ☐ Ageing season ticket holders ☐ Lack of good teaching facilities ☐ Food and beverage under the Club's control ☐ Fragmented management structure ☐ Significant fall in usage in recent years ☐ Very low annual golf revenue ☐ Annual trading deficit ☐ Business in decline

<p>Opportunities:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Improve course presentation <input type="checkbox"/> Children <input type="checkbox"/> Women <input type="checkbox"/> Families <input type="checkbox"/> Tee time yield management <input type="checkbox"/> Better golf IT system / online tee booking <input type="checkbox"/> Improve management structure <input type="checkbox"/> Improve clubhouse facilities (short term) <input type="checkbox"/> New stand alone clubhouse 	<p>Opportunities:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The cottage <input type="checkbox"/> Improve clubhouse facilities (short term) <input type="checkbox"/> Driving range and new clubhouse
<p>Threats:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Economy downturn <input type="checkbox"/> Climate change <input type="checkbox"/> Competitor encroachment <input type="checkbox"/> Council takes no firm action for change 	<p>Threats:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Economy downturn <input type="checkbox"/> Climate change <input type="checkbox"/> Competitor encroachment <input type="checkbox"/> Council takes no firm action for change