

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

EXECUTIVE MANAGEMENT TEAM'S REPORT TO CABINET

16 October 2019

1. **REPORT TITLE** **KIDSGROVE SPORTS CENTRE UPDATE**
- Submitted by:** **Chief Executive – Martin Hamilton**
- Portfolio:** **Corporate and Service Improvement, People and Partnerships**
- Ward(s) affected:** **Kidsgrove & Ravenscliffe**

Purpose of the Report

To update Members on progress regarding the re-opening of Kidsgrove Sports Centre.

Recommendations

Cabinet are asked to consider the financial, legal and risk implications of the options presented in the report and to:

1. Reaffirm the Council's commitment to sports & swimming provision in Kidsgrove.
2. Agree to re-opening the sports centre as the vehicle for delivery of this commitment
3. Agree in principle to support option A for the reasons set out at paragraph 3.2 subject to:
 - a) Validation and confirmation of full cost estimates for refurbishment of the sports centre;
 - b) Satisfactory assurances that following refurbishment the building will have a life expectancy that justifies the required level of investment from the perspective of both affordability and value for money;
 - c) Submission and validation of an updated business plan that includes full lifecycle costs and confirms the level of annual subsidy required;
 - d) Resolution of the outstanding legal issues detailed at paragraph 2.1;
 - e) The CIO strengthening its capacity and governance to enable the project to be delivered and associated public funds safeguarded
4. Convene an all-party Cabinet panel to consider the revised cost estimates and business plan with a view to Cabinet making a recommendation to Council on reopening the existing Kidsgrove Sport Centre.

Reasons

Reopening the swimming pool in the existing sport centre represents the quickest and lowest cost option for re-providing sports and swimming provision in Kidsgrove. Nonetheless, the costs of re-opening the centre will be higher than was anticipated in the original agreement to transfer the sports centre to the CIO in November 2018. In addition, there is now greater clarity on the likely level of ongoing subsidy.

There is therefore a need to reconfirm the affordability of the project and evaluate whether it still offers value for money before completing the transfer from the County Council and entering into a formal funding commitment with the CIO for the delivery of sports provision in Kidsgrove.

1. Background

- 1.1 In November 2018 Cabinet agreed in principle to accept the transfer of Kidsgrove Sports Centre from the County Council together with a sum of £362,990 in respect of demolition costs and to undertake a “back to back” transfer of the Sports Centre and associated ongoing risks to the Kidsgrove Sports Centre Community Group (CIO) on like terms. Cabinet further resolved that a meeting be arranged between the Borough Council, the CIO and officers of the County Council to move the transfer forward and put in place plans for the refurbishment of the facility at the earliest opportunity. Authority was delegated to the Leader of the Council, in consultation with the Council’s Executive Management Team, to take such decisions as were necessary to progress this matter.
- 1.2 Since November 2018 regular meetings have taken place between Council officers and the CIO culminating in the CIO submitting firm proposals for phasing of the capital works to make the building safe and watertight and enable the dry side facilities to be brought back into use as quickly as possible, updated cost estimates and a business plan.
- 1.3 Following discussions between the Council and the CIO at the regular project steering group it is now proposed to commit to re-open the Swimming pool as a further phase of the project. This, plus more detailed analysis of works required to the building have allowed a clearer picture of the total costs to be developed. The capital costs will be greater than anticipated in the original agreement to transfer the sports centre to the CIO and there is now the prospect that an ongoing operating subsidy will be required.
- 1.4 It had been originally been proposed that the refurbishment of the existing building was as a stop-gap measure to ensure continued access to sports facilities for Kidsgrove residents pending the procurement and construction of a new leisure centre for which provision is made in the 10 year capital programme approved by Cabinet and Council in February 2019, although the source of this funding had not been identified due to the commitment being some years ahead. It should be noted that since the decision in November 2018 to transfer the sports centre to the CIO for refurbishment the Government have invited the Council to put forward proposals for a Town Deal for Kidsgrove potentially worth up to £25m that could include funding for this development.
- 1.5 In view of the increased costs of refurbishment there is a need to reconfirm the affordability of the project and evaluate whether it still offers value for money before completing the transfer from the County Council and entering into a formal funding commitment with the CIO.
- 1.6 This report provides an update on work undertaken to date and decisions required at this stage to move the project forward.

2. Issues

2.1 Property Transfer

- 2.1.1 Detailed discussions have taken place with the County Council to agree heads of terms for the sale contract and overage deed with a view to completing the freehold transfer. This follows the expiry of the full moratorium period on 5 October 2019 which was triggered by Kidsgrove Community CIO following the County Council’s notice of intended disposal served in accordance with the Asset of Community Value procedures set out in the Localism Act 2000. In the meantime SCC is currently securing the building at their cost (approx. £70k over last two years).

- 2.1.2 At the time of writing this report there are two outstanding issues that county and borough council officers are working to resolve. Firstly, the borough council is concerned by the two overage provisions put forward by SCC whereby any future disposals or planning consents/change of use during a 125 year overage period will trigger clawback to SCC.
- 2.1.3 Secondly, there is concern about the requirement to provide SCC with annual updates for the next 10 years in order to verify that SCC's contribution (£362,990) is utilised in accordance with the sale contract. NuLBC would need to include specific obligations within CIO's legal agreements in order to maintain the chain of indemnity.
- 2.1.4 It should be noted that under the proposed terms of the transfer there is an on-going liability for NuLBC, particularly if the CIO were to dissolve and implications for disposal or continuation of the service dependent on the freehold or leasehold arrangements in place.
- 2.1.5 In parallel with efforts to finalise the terms of the property transfer from SCC discussions have been taking place with the CIO about the terms of the back to back transfer to them from NuLBC. The current proposal is for a freehold transfer from SCC to NuLBC and a simultaneous leasehold transfer to the CIO for a period of 30 years. However, the council's ability to offer a long lease is subject to assurances that the proposed refurbishment works would result in a commensurate extension of the lifespan of the building and that the business plan can accommodate lifecycle costs over this period.
- 2.1.6 Access to the site via land owned by the adjoining school is a further issue that remains to be resolved. This is the subject of ongoing discussions with the school.

2.2 Development of Cost Estimates

- 2.2.1 The CIO have submitted high level design proposals and estimated construction costs. The proposed phasing would see the building made safe and watertight in the first instance and then the dry and wet side facilities brought back into use in subsequent phases. Provisional sums have also been estimated for professional fees, inflation, phasing and other non-construction items giving the following estimated costs for completion of each phase:

	Phase 1 (Safe and Watertight)	Phase2 (Dry Side) £	Phase3 (Wet Side) £	Total £
Construction Costs				
General	610,000			610,000
Entrance	25,750			25,750
Foyer		102,500		102,500
Disabled WC		7,750		7,750
Reception		5,350		5,350
Office		5,450		5,450
Kitchen/Cafe	32,500	-	78,750	111,250
Pools	150,000		227,000	377,000
Foyer WC's		3,800		3,800
Changing Village	20,000	-	66,000	86,000
Main Corridor		9,000		9,000
Staff WC	300	1,050		1,350
First Aid	300	1,700		2,000
Staff Room	1,600	7,600		9,200
Office	400	1,300		1,700
Disabled WC		4,200		4,200
Staff/Steam Circulation		14,050		14,050

Steam Rooms		35,100		35,100
M&F Change		43,500		43,500
Sports Hall	5,000	47,500		52,500
Gym		133,200		133,200
Dance Studio		15,000		15,000
Flooring		10,000		10,000
Roof Works	366,000			366,000
Sub-Total	1,226,850	433,050	371,750	2,031,650
Contingency 10%	122,685	43,305	37,175	203,165
Preliminaries 10%	134,954	47,636	40,893	223,482
Total Construction Costs	1,484,489	523,991	449,818	2,458,297
Provisional Sums				
Professional fees (15%)	222,673	61,538	67,473	368,745
Inflation (5%)	74,224	20,513	22,491	122,915
Phasing (5%)	74,224	20,513	22,491	122,915
Incoming services - gas	20,000			20,000
Reconnection of services	10,000			10,000
Asbestos removal survey	1,500			1,500
Furniture, fixtures and equipment		100,000		100,000
External works	20,000			20,000
Signage		5,000		5,000
CCTV		20,000		20,000
External lighting		10,000		10,000
Fire Risk Assessment	2,500			2,500
Sub-Total Provisional Sums	427,622	263,498	112,454	803,574
Total Costs	1,912,111	787,488	562,272	3,261,871

- 2.2.2 These costs have not been independently validated at this stage, however the construction costs are broadly in line with the latest Entrust Building Condition Survey undertaken in January 2018 totalling £2,469,215. It should be noted that the contingency figure above is considered low for a refurbishment project of this nature and 15% to 20% is the norm. In addition there would be procurement and project management costs.
- 2.2.3 If the CIO undertake the capital works they will be liable for VAT, adding a further 20% to the above and bringing the total costs of the project to £3.914m.
- 2.2.4 The CIO has requested that NuLBC procure the capital works as the Council would not be liable for VAT on construction costs. The Council is better placed than the CIO to manage a complex refurbishment project of this nature and this would afford a higher degree of control over design and construction costs. However, it would leave NuLBC holding all of the warranties and with an ongoing responsibility for major defects unless these could be novated to the CIO.
- 2.2.5 Given the age and condition of the building there is a significant risk that costs could escalate once refurbishment works commence (for example, in the event that asbestos contamination over and above that identified in the existing survey is discovered).
- 2.2.6 Financial contributions agreed to date are £362,990 from the County Council and £300,000 from the borough council. There is also potential funding from Sport England in the sum of £100,000. This leaves an additional capital funding requirement of £2.589m to make the

building safe and watertight and bring the dry side facilities back into use and £3.151m for the whole project including swimming provision.

- 2.2.7 The CIO is seeking an additional capital contribution from the borough Council to bridge this funding gap. However, in practice the Council would also be committing to underwrite any cost overruns. In addition, the CIO would look to the Council to underwrite any ongoing operating deficit once the capital works have been completed.
- 2.2.8 The affordability and value for money of the project from the Council's perspective is to a significant degree dependent on the extent to which the refurbishment prolongs the useful life of the building as this will determine the period over which any associated borrowing is undertaken.
- 2.2.9 The 2019-20 budget approved by Cabinet and Council in February 2019 assumed that the £300,000 contribution from NuLBC would be funded from borrowing with a 10 year loan period. This loan period was consistent with the assumed life expectancy of the refurbished building at that time. Assurances would be required prior to committing to any additional capital funding that the refurbishment would extend the life of the building sufficiently to justify a longer loan period and hence make the revenue costs affordable after allowing for lifecycle costs.
- 2.2.10 Cabinet will need to evaluate whether it is in a position to provide the necessary capital funding required to bring the sports centre back into use and whether this represents appropriate value for money. If the council is unable to provide the additional funding required, then the refurbishment project will not be viable. Equally, if the affordability case and value for money justification for investing between £3m and £4m to refurbish the existing facility rests on extending its life significantly beyond the current assumption of 10 years this calls into question the viability of plans to build a new leisure centre within the next 5 years.

2.3 Business Plan

- 2.3.1 A business plan has been prepared by Sport England consultants demonstrating that the CIO will need a start-up loan and operating subsidy for the early years of operation, as is quite usual with such ventures. The CIO have requested that the borough council provide an interest-free loan of up to £50,000 for a period of 2 years to ensure they have access to adequate working capital.
- 2.3.2 Officers have reviewed the business plan presented by the CIO and are of the view that it presents an overly optimistic view of the income potential. Engagement with the CIO is continuing to validate and refine the business plan on the basis of the current refurbishment proposals and to explore creative uses of the space that support a service offer which is commercially attractive.
- 2.3.3 The current business plan is for a five year time horizon and as such does not reflect lifecycle costs such as periodic replacement of plant and equipment which would occur beyond this time. A sinking fund will need to be allowed for within the business plan, and could have a material effect on the operating subsidy in the longer term if the useful life of the building is significantly extended.

2.4 Governance

- 2.3 The CIO recognise that if they are to be the recipients of significant public funding they will need to strengthen the board by appointing new members with relevant experience, including in the leisure sector. If Cabinet are minded to commit substantial funds to the Sports Centre, it is recommended that this be conditional on the CIO appointing further

suitably experienced board members and putting appropriate governance arrangements and safeguards in place to ensure that these public funds are properly spent.

3. **Alternative Options Considered**

- 3.1 The November 2018 decision to transfer the sports centre to the CIO was predicated in the assumption that the CIO would undertake the refurbishment of the sports centre and then run it. Alternative options considered are as follows:
- 3.2 Option A: The Council could refurbish the sports centre and then hand over to the CIO to run. The Council is better placed than the CIO to manage a major project of this nature and would retain a greater degree of control over both the design and capital costs of the refurbishment under this option. In addition, overall capital costs would be lower than the CIO undertaking the refurbishment as the Council would not have to pay VAT. However, the Council would be left holding all of the warranties and with an ongoing responsibility for major defects unless these could be novated to the CIO. Clarity would also be required about responsibility for ongoing repairs and other lifecycle costs under the terms of the proposed lease agreement.
- 3.3 Option B: The Council could refurbish and continue to run the Kidsgrove Sports Centre. This would have similar advantages to Option A. The operating subsidy under this option would likely be higher due to the additional costs that the Council would incur (for example, pensions and overhead costs), however it would allow the sports centre to be brought back into use at the earliest possible date whilst keeping open the option of procuring a commercial operator to run it at lower cost in the longer term.
- 3.4 Option C: The Council could refurbish the sports centre and then procure a commercial operator to run it under a contract for services. This would have similar advantages to Option A. The Council would have to go through a procurement exercise to appoint an operator and this option would not be compatible with a phased re-opening of the facilities. However, a commercial operator would be less likely to require ongoing operating subsidy than either the Council or the CIO.
- 3.5 Option D: The Council could offer the sports centre to a commercial operator on a long lease with a view to them either refurbishing or rebuilding the facility and developing a more commercial leisure offer that would not require any ongoing subsidy. It is likely that any commercial operator would require a capital contribution from the Council towards refurbishment or replacement costs. The Council would also have to go through a procurement exercise to appoint an operator which would result in considerable delay in bringing the facilities back into operation. This is likely to be around 3 years for refurbishment and 5 years for new build.

4. **Proposal**

- 4.1 Members are asked to consider the financial, legal and risk implications of providing additional capital funding and a working capital loan to the CIO to facilitate the refurbishment of the all facilities at Kidsgrove Sports Centre and to:
- a) Reaffirm the Council's commitment to sports & swimming provision in Kidsgrove.
 - b) Agree to re-opening sports centre as the vehicle for delivery of this commitment
 - c) Agree in principle to support option A for the reasons set out at paragraph 3.2 subject to:

- Validation and confirmation of full cost estimates for refurbishment of the sports centre;
 - Satisfactory assurances that following refurbishment the building will have a life expectancy that justifies the required level of investment from the perspective of both affordability and value for money;
 - Submission and validation of an updated business plan that includes full lifecycle costs and confirms the level of annual subsidy required;
 - Resolution of the outstanding legal issues detailed at paragraph 2.1;
 - The CIO strengthening its capacity and governance to enable the project to be delivered and associated public funds safeguarded.
- d) Convene an all-party Cabinet panel to consider the revised cost estimates and business plan with a view to Cabinet making a recommendation to Council on reopening the existing Kidsgrove Sport Centre.

5. **Reasons for Preferred Solution**

- 5.1 To balance the Council's commitment to ensure that local access to and participation opportunities in a range of sport and physical activities is facilitated in Kidsgrove with affordability and value for money considerations.

6. **Outcomes Linked to the Council Plan**

- 6.1 Re-provision of Kidsgrove Sports Centre is a key Council priority.

7. **Legal and Statutory Implications**

- 7.1 There is no statutory duty on the Council to provide sports and leisure facilities although it does have the legal power to do so. The Local Government Act 2000 specifically introduced the power to promote the economic, social or environmental wellbeing of the area which was intended to enable Councils to respond to the needs of local communities. This has now been supplemented by the general power of competence under the Localism Act 2000.
- 7.2 If undertaking the refurbishment, subject to detailed legal advice, the Council could decide on a community asset transfer, to market test a management contract for the centre, through a competitive tendering process, or operate the sports centre in-house

8. **Equality Impact Assessment**

- 8.1 To be advised on option selected.

9. **Financial and Resource Implications**

- 9.1 **Capital:** The capital programme has a budget allocation commencing in 2022/23 of £10m for a new leisure centre, although the actual funding source has not yet been identified. There may be scope for funding some of the additional capital costs from slippage in the 2019/20 and 2020/21 capital programme or by rephrasing existing projects. In the longer term additional capital costs could only be accommodated within the programme by reducing or removing allocations for other capital projects or by increasing prudential borrowing.
- 9.2 **Revenue:** The Council's revenue budget contains provision for the capital financing costs of providing a £300,000 contribution towards the costs of refurbishing the sports centre on the assumption that these will be financed from prudential borrowing over a 10 year period. The table below shows the revenue implications of borrowing an additional £3.151m via the

PWLB over a number of periods to make the building watertight and safe and bring the dry side facilities and swimming pool back into use. These costs are indicative only. Actual costs would depend on the financing method and, if financed from external borrowing, the interest rates at the time the loan was taken out and the loan period, which would need to reflect the estimated asset life.

Revenue implications of borrowing an additional £3.151m

Number of Years (Loan Period and Asset Life)	PWLB Maturity Rate %	Concessionary Rate % (PWLB Rate -0.20%)	Interest per year (£)	Total Interest for the period of the loan (£)	Annual MRP (Principal repayment based on an asset life equivalent to loan period) (£)	Total annual revenue cost of the loan (£)
5	2.36	2.16	68,062	340,308	630,200	698,262
10	2.58	2.38	74,994	749,938	315,100	390,094
20	3.06	2.86	90,119	1,802,372	157,550	247,669
30	3.09	2.89	91,064	2,731,917	105,033	196,097

10. **Major Risks**

- 10.1 In the absence of making a decision to develop the leisure offer In Kidsgrove there is a clear reputational risk to the Council in terms of providing no leisure provision or a poor quality provision.
- 10.2 In making a decision to improve the current provision there are significant financial risks. The building is more than 40 years old and in a poor state of repair. Although a condition survey has been carried out the full extent of asbestos contamination is not known at the present time and structural risks such as plant, mechanical and electrical will need to be mitigated. The Council would effectively be underwriting any cost overruns on the capital works and the ongoing operating deficit, the magnitude of which are unknown at the present time. Officers are directed through this report to undertake further work to validate as far as possible costs and the business plan before commencing works.
- 10.3 The refurbishment option involves retaining all of the existing structure and land along with undertaking significant works to the building to provide a more commercially viable offer, but this comes at a cost to the Council's revenue position.
- 10.4 Although the cost per metre squared of development is likely to be lower for refurbishment than for new build this comes with a higher risk which could reduce the eventual capital saving compared to a new build. A refurbished centre is not likely to achieve the same level of revenue as a new build and is likely to involve some compromise on the quality and layout of the facilities. It is anticipated that community buy in to the centre can be enhanced by virtue of the scheme being community led and run.

11. **Sustainability and Climate Change Implications**

- 11.1 None.

12. **Key Decision Information**

- 12.1 Forward Plan September 2019.
- 13. **Earlier Cabinet/Committee Resolutions**
 - 13.1 Cabinet November 2018
- 14. **List of Appendices**
 - None
- 15. **Background Papers**
 - None