

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

**Cabinet
22 April 2020**

Report Title: Kidsgrove Sports Centre Refurbishment

Submitted by: Executive Director Commercial Development and Economic Growth

Portfolios: Corporate and Service Improvement, People and Partnerships

Ward(s) affected: Kidsgrove & Ravenscliffe

Purpose of the Report

To approve the development of the work package for full design and cost information prior to an award of contract and the financing arrangements for the refurbishment of Kidsgrove Sports Centre.

Recommendation

That Cabinet

- 1. Authorises the development of the pre-contract work package for full design and cost information for the refurbishment and redevelopment of Kidsgrove Sports Centre and Swimming Pool, through the SCAPE Framework, in the sum of £479,500**
- 2. Authorises the Executive Director – Commercial Development and Economic Growth, in consultation with the Leader & Portfolio Holder, to agree any reasonable variations to the pre-contract work package price required as a result of detailed and intrusive survey work being undertaken in April & May 2020**
- 3. Notes that the cost of the project is now £5.6m of which £3.151m is currently included in the 2020/21 capital programme and approves a supplementary capital estimate of up to £2.5m (and any necessary virements) to cover the final all-inclusive capital cost of the project (based on the project appraisal).**

Reasons

The procurement of this contract will(iii) allow the council to fulfil its commitment to provide sports facilities in Kidsgrove that are modern, attractive and high quality that meet public expectations.

1. Background

- 1.1** On 18 March 2020 cabinet agreed that reopening Kidsgrove Sports Centre and swimming pool represented the quickest and lowest cost option for re-providing sports and swimming provision in Kidsgrove. This assumption is based on an estimated target cost of £5.6m through the SCAPE Framework, which is subject to further survey for a greater degree of cost certainty, but establishes a sizeable budget for the refurbishment in which officers have confidence in delivering the scheme of works to reopen the sports centre and swimming pool.

- 1.2 The refurbishment and redevelopment of Kidsgrove Sports Centre and Swimming Pool will enable the centre to fully reopen to the public under community management.

2. **Issues**

- 2.1 At its October 2019 meeting Cabinet agreed in principle to support the refurbishment of Kidsgrove Leisure Centre subject to a number of conditions:
 - 2.1.1. Validation and confirmation of full cost estimates for refurbishment of the sports centre;
 - 2.1.2. 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;
 - 2.1.3. Submission and validation of an updated business plan that includes full lifecycle costs and confirms the level of annual subsidy required;
 - 2.1.4. Resolution of the outstanding legal issues relating to the transfer of the property from Staffordshire County Council to the Borough Council;
 - 2.1.5. The CIO strengthening its capacity and governance to enable the project to be delivered and associated public funds safeguarded.
- 2.2 Since the October meeting work has been progressed to address these issues as set out in this report.

Validation of Cost Estimates & Building Life Expectancy

- 2.3 The key issue affecting delivery of the Kidsgrove Sports Centre have revolved around the capital funding challenge, as well as the future operational and financial challenges.
- 2.4 A detailed cost estimate has been prepared through the engagement of Wilmott Dixon via the SCAPE Framework, as reported to Cabinet in March 2020. This evaluation, based on the Community Interest Group's requirements, identified that the cost of a refurbishment would be c. £5.6m. The scope of works costed by Wilmott Dixon specified that the works should deliver a building life expectancy of 25 years.
- 2.5 An evaluation of costs has been completed and it is confirmed that the scheme can be funded with the overall capital programme by carrying forward underspends and vired funds from elsewhere, without the requirement for borrowing.
- 2.6 A briefing note on the project has also been sent to the local MP in preparation for his meeting with the Sports Minister to discuss additional funding that might be made available for the scheme. It is anticipated that Sport England will provide a £100,000 grant and discussions are ongoing presently. The MP, Jonathan Gullis, is also holding an adjournment debate in Westminster in April on the matter.
- 2.7 This procurement will deliver quality sports facilities in Kidsgrove which will meet the needs of local residents. It will provide facilities that will increase physical activity levels and result in enhanced health benefits as well as shaping positive social behaviour and learning opportunities.
- 2.8 The form of contract for this project is NEC Contract with Contractor's Design which will include the opportunity for this council's amendments.

Outstanding Legal Issues

- 2.9 The building is owned by Staffordshire County Council and work is progressing to effect its transfer to the Borough Council, as well as to effect a Lease to the Community Group. In order to progress with survey and design works, the County Council's consent will need to be obtained for any work to take place in advance of the transfer of the land and buildings to this Council. This transfer and an agreement to lease with the CIO are being finalised by the Council's appointed solicitor. The length of the lease to the CIO will reflect the life expectancy of the building.

Updated Business Case and Strengthening the Community Group

- 2.10 Since October 2019 the Community Group has brought additional members onto its board. These members have specific experience in the leisure industry, including community run facilities.
- 2.11 In order to confirm the affordability of the project a review of the CIO's updated Business Case has been completed and financial modelling undertaken to quantify the potential financial underwriting required during the first 5 years of operation. The following table summarises the CIO's business case together with the Council's modelling of best, medium and worse case scenarios:-

Net (Loss)/Surplus	Pre-Opening	Year 1	Year 2	Year 3	Year 4	Year 5
CIO Business Case	(£15,563)	(£64,481)	(£10,746)	£7,116	£21,198	£22,874
Best Case 70%-85% latent demand	(£15,563)	(£86,813)	(£34,639)	(£18,158)	(£5,939)	(£6,558)
Medium Case 60%-75% latent demand	(£15,563)	(£118,001)	(£66,094)	(£49,623)	(£37,444)	(£38,329)
Worst Case 50% - 65% latent demand	(£15,563)	(£149,189)	(£97,491)	(£80,954)	(£68,716)	(£69,601)

- 2.12 Potential financial scenarios have been modelled using a range of take up percentages in respect of the income generated by latent demand. The following additional assumptions have also been made in respect of those cost elements which are most significant in terms of the potential demand for ongoing operating subsidy:-

- Additional staff sickness cover based on the Council's experience of running Jubilee2
- Annual uplift on utility costs

3. Proposal

- 3.1 This decision report seeks approval to the development of the work package for full design and cost information prior to an award of contract for the refurbishment of Kidsgrove Sports Centre and the financing arrangements for the project.
- 3.2 Currently the contractor, Willmott Dixon, are undertaking a series of intrusive survey works on site to ascertain the validity of the budgets allowed in the initial estimates. This work will be completed by the end of May 2020 and is costing £65,265.

3.3 Upon completion of these surveys and confirmation that the levels of work and budgets allowed within the anticipated budget of £5.6m are sufficient and having made sure that no high risk items go un-investigated, the next phase of work will be detailed design and contract award price build up exercises which will cost a further £479,500, and will be complete in early 2021.

4. **Reasons for Proposed Solution**

4.1 The decision to reopen the facility is supported from a number of aspects:

4.2 The facilities are required to enable activity for health benefits on a localised basis, linked closely to the Council's Sport and Active Lifestyle Strategy;

4.3 The facilities are required for those members of the community that are currently disengaged or inactive;

4.4 The facilities are required for education and extra-curricular needs, given the importance of embedding a life-long activity habit in young people;

4.5 The facilities are required for sport, particularly sports development and talent development aspects;

4.6 The facilities are required for disability sport, including sports development and education links.

5. **Options Considered**

5.1 In confirming the continued need for the Kidsgrove Sports Centre, the Council has confirmed its understanding of the business and strategic need for the facility, through supply and demand modelling using various sources of information which included: feasibility work; Sports England's Active Places Power website; The Leisure Database Company's health and fitness latent demand modelling; and Sport England's Facility Planning Models for pool water and sports halls, to determine elements of the facility mix that are needed.

5.2 Extensive consultation was also undertaken with key Council Officers and stakeholders to inform the feasibility study and future consideration of management / delivery options. The scope of this consultation included group sessions / one-to-one meetings and telephone-based discussions with key council officers; (operational, finance, leisure, planning etc.), portfolio holders / key Council Members, key user / stakeholder groups such as school representatives, Sport Across Staffordshire & Stoke-on-Trent CSP, Staffordshire County Council and the local Kidsgrove Action Group.

5.3 Consultation discussions explored the needs and aspirations of the local community, any competing facilities that should be considered, the facility mix, the location of the centre, financial and planning considerations as well as suggested service improvements and partnerships that could be established to sustain the centre moving forwards.

6. **Legal and Statutory Implications**

6.1 Section 2(1) of the Local Government Act 2000 permits local authorities to do anything they consider likely to promote or improve the economic, social and environmental well-being of their area. That would include the intended provision at Kidsgrove Sports Centre.

6.2 As set out in the report, there will be a need to ensure proper and effective agreements are entered into in order to vest the necessary interests in the land and buildings to enable the site to be refurbished and effectively managed once operational. In addition to a lease, there will need to be a management agreement defining the rights and obligations of the various parties which ensures that the council is adequately protected against operating risks. The various contractual arrangements necessary to bring about the refurbishment will have to be

undertaken in accordance with the Council's Contract Procedure Rules and Financial Regulations, which allow procurement through the use of frameworks such as SCAPE.

7. Equality Impact Assessment

7.1 Leisure has an important contribution to make to the wellbeing of the community. Programmes at the Centre can contribute to economic and social activity; improve the health of residents; bring communities together and introduce an identity; enable groups to represent themselves; develop sport and other skills; and provide opportunities for the voluntary sector and community activity.

8. Financial and Resource Implications

8.1 An options appraisal has been completed to compare the value for money offered by refurbishment of the existing Sports Centre and the alternative option of building a new Sports Centre in Kidsgrove. The appraisal compares the quantum and timing of expenditure for each option (design and construction costs, routine maintenance and sinking fund contributions for life cycle costs such as replacement of plant and equipment over the expected life of the building) and converts them to a net present value (NPV). The appraisal has confirmed that the option of refurbishing the existing Sports Centre provides better value for money than the rebuild option with both a lower cash outlay and a lower NPV. The cost of refurbishment will be £5.6m, whilst the cost of a new build would be c.£11.6m. It should be noted that the maintenance & lifecycle costs (£6.578m over 25 years) will be borne by the CIO as part of its operating model, not by the Council.

Refurbishment Option	Dry Side			Wet Side			Total £	NPV £
		1.00%	2.00%		0.60%	2.00%		
	Construction	Sinking Fund	Maintenance	Construction	Sinking Fund	Maintenance		
Costs Year 0	2,833,692			2,755,057			5,588,749	5,588,749
Costs		1,510,926	1,416,846		842,570	2,808,566	6,578,908	
NPV after 25yrs								4,337,215
Total							12,167,657	9,925,964
Rebuild Option	Dry Side			Wet Side			Total £	NPV £
		0.50%	1.00%		0.30%	1.00%		
	Construction	Sinking Fund	Maintenance	Construction	Sinking Fund	Maintenance		
Costs Year 0	6,043,705			5,617,133			11,660,837	11,660,837
Costs		755,463	708,423		421,285	1,404,283	3,289,454	
NPV after 25yrs								2,168,607
Total							14,950,291	13,829,444

8.2 The total capital cost of the project amounts to £5.6m. The cost can be accommodated within the existing approved capital programme, subject to a supplementary capital approval to cover the final all-inclusive capital cost of the project (based on the project appraisal). The table below summarises how this supplementary capital approval will be funded. £2m of this expenditure will be incurred in the 2020/21 financial year and the remainder in 2021/22.

Funding Summary	£ (000)
Revised budget requirement	5,600
Original 2020/21 Capital Programme allocation	3,151
Supplementary budget approval required	2,449
Funded by:	
Staffs County Council Contribution	363
Sport England Contribution	100
Virement from 2020/21 Capital Programme	1,032
Re-allocation of 2019/20 Capital Programme underspends	704
Use of Capital Contingency	250
Total	2,449

- 8.3 A project contingency is contained within the overall project budget of £5.6m.
 - 8.4 The total expenditure incurred against the capital allocation for the scheme will be monitored and reported to the “Capital, Assets and Commercial Investment Review Group” (CACIRG) as part of the overall Capital Programme.
 - 8.5 Based on this modelling of the CIO business case to understand the impact of differential trading and operating experience, there is a potential requirement over the first 5 years of operation of between £40,000 based on the CIO business plan and between £168,000 best case scenario and an extreme worst case scenario of £482,000 based on the Councils modelling. In addition to any operating subsidy required the Council's revenue budget will also bear the cost of 20% of the business rates for the centre estimated at £20k. This level of underwriting is still significantly lower than the operating deficit previously incurred when the Council ran this facility.
 - 8.6 The Council will need to make provision in the MTFS for business rates. The first year of trading will inform whether there is an ongoing requirement for underwriting and if so at what level and this will need to be addressed in future years MTFS.
 - 8.7 It should be noted that based on the business plan submitted by the CIO the centre will incur losses in the first two years of operation and will not achieve a break-even position until year 6 at the earliest. The CIO have requested that the Council provide cash flow funding of up to £100,000 on a draw down basis until such time as the centre achieves a cash positive position. Appropriate agreements will be entered into once the necessary due diligence checks have been completed through the S151 Officer, in consultation with Legal Services.
9. **Major Risks**
- 9.1 Risk has been considered as part of this report and two main specific high risks are included below:
 - 9.1.1 The financial projections supplied by the Community Group are not achieved and the facility runs at either a loss (which the Council has to cover) or closes and the Council takes back possession. The Council will work with the Community Group to support its efforts to maximise income and achieve the projected business plan.
 - 9.1.2 There is insufficient capital budget – A sizeable capital allocation, sufficient to re-open the sports centre, is being resourced by the Council without borrowing and the opportunity for external funding is being explored on behalf of the Council.
 - 9.1.3 Community expectations - it is clear from the latent demand analysis that the community demand is not currently being met. The refurbished sports centre provides the opportunity to address this. However, there remains a risk that commercial leisure operators will enter the local leisure market seeking to capture of this demand and in particular the more profitable elements.
- 10 **Sustainability and Climate Change Implications**
- 10.1 None specific to this report, but the refurbishment will be updated to comply with current building regulations.
- 11 **Key Decision Information**
- 11.1 This report deals with a key decision on account of the sums involved
- 12 **Earlier Cabinet/Committee Resolutions**

12.1 The following previous reports relate:-

- Cabinet 18 March 2020
- Cabinet 15 January 2020
- Cabinet 6 November 2019
- Cabinet 16 October 2019

13 **List of Appendices**

13.1 None

14 **Background Papers**

14.1 None