

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Cabinet
09 June 2021

Report Title: Kidsgrove Sports Centre Refurbishment

Submitted by: Executive Director Commercial Development and Economic Growth

Portfolios: One Council, People and Partnerships

Ward(s) affected: Kidsgrove & Ravenscliffe

Purpose of the Report

To note the progress made to date on the refurbishment works to Kidsgrove Sports Centre.

Recommendation

That Cabinet

1. Notes the progress made on the project since the March 2021 Cabinet meeting in terms of scope, design and budget in consultation with the Kidsgrove Leisure Centre Community Group.
2. Notes that expenditure to date is £1.063m.
3. Notes that the Kidsgrove Town Deal funding allocation announced by MHCLG on the 3rd March including £2.45m towards the overall cost of the project has now been confirmed as guaranteed funding by MHCLG on 10.05.21.
4. Approves the overall capital cost of the project is £7.5m (which includes the works undertaken to date on site and the funding, including external funding sources, for the scheme is contained in section 8.1).
5. Approves the revenue support from the Council for the scheme for the first five years of the sport centre operation to the Community Group – Kidsgrove Sports Centre – is £480k worst case scenario.
6. That a further contract award is given to Willmott Dixon Construction Ltd for the amount of £6.437m to complete the works in readiness for opening in May 2022.
7. Authorises the Executive Director – Commercial Development and Economic Growth, in consultation with the Portfolio Holder, One Council, People and Partnerships to take such actions and enter such agreements as are reasonably necessary or prudent to ensure the refurbishment is complete and the centre operational by the target date.

Reasons

This project will 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 The refurbishment and redevelopment of Kidsgrove Sports Centre and Swimming Pool is a corporate priority and will enable the centre to fully reopen to the public under community management, through the Kidsgrove Sports Centre Community Interest Company (KSC CIO)
- 1.2 Previously Cabinet has approved that this scheme be developed in line with the expectations of the KSC CIO to refurbish Kidsgrove Sports Centre. Work on the design, surveys and costs and guaranteed funds for the scheme has now been substantially completed and is the subject of this report.

2. **Update**

- 2.1 Since Cabinet received its March 2021 update on the project, there has been significant progress on the scheme costs and funding sources, as listed below:

- Willmott Dixon Construction Limited have confirmed that the overall target cost for the scheme is £7.5m (note that this amount includes all works undertaken to date).
- The Community Group have confirmed that the first five years of operation will require £480k of revenue support from the Council in the worst case scenario.
- A Green Book assessment has been undertaken by Stantec (an independent economic development consultancy) which appraised the capital and operational costs of the Centre, which concluded that the refurbishment of the Centre is the most cost effective approach to re-opening the Centre at this point and that the revenue support requested by the Community Group aligns with the business model being proposed.
- Confirmation from MHCLG that the £2.45m is now guaranteed on the submission of all appropriate application paperwork on the back of the Green Book assessment on the overall capital and operational costs for the Centre.
- The lease for the Sports Centre has been issued to the Community Group and agreed in principle and will be completed prior to the award of the construction contract to Willmott Dixon.
- A management agreement with the Sports Centre is to be developed so that there is a framework through which the Council can support and ensure the operational success of the centre in light of the capital and revenue investment it is making in this project.
- The signing of the community use agreement for the new adjacent 3G pitch and the associated finding agreement with the Town Deal Board and The Kings Academy which both highlight the access rights for the sports centre's boiler room across the new pitch.
- Successful discussions between the Community Group and The Kings Academy on sharing of facilities and the undertaking to jointly appoint a facilities manager across both sites / operations.

Contract Cost Build Up

- 2.2 Willmott Dixon have concluded the cost development exercise and this has resulted in a scope of works that the Community Group have approved in line with their business plan. Previously the agreed budget for the refurbishment was £5,998,000, including the works undertaken to date. The results of the above work by Willmott Dixon have increased this cost to £7,500,000, including works to date.
- 2.3 The Capital Programme allocation for this project is £5,998,000, including sums from Staffordshire County Council, Sport England and Town Deal Advance Funds. In addition, funds have now been approved from Town Deal totalling £2,450,000, as noted above.

3. **Proposal**

- 3.1 It is proposed that Council officers and the CIO finalise the lease and management agreements in order for the construction contract to be awarded.

4. **Reasons for Proposed Solution**

- 4.1 The decision to will enable the project to progress at its increased target cost, in a way which is compliant with both the MHCLG requirements for Town Deal and with the Council's own Financial Regulations relating to projects involving grant funding.

5. **Options Considered**

- 5.1 Over the past eighteen months Council officers and Members have investigated several options for the centre, which included doing nothing to the centre, a minimal refurbishment through to the full refurbishment option now being considered.
- 5.2 The Council have made a commitment to the Kidsgrove community for the re-provision of swimming and sports hall facilities in the area and therefore the do nothing option was discounted at a very early stage.
- 5.3 A minimal refurbishment was investigated at the outset of the project at feasibility stages to assess likely budget and potential life span of such works and the centre. This option was discounted due to the fact the state of the building, the age (and decay) of the support systems within the building infrastructure (heating, electrical and pool filtration equipment) and the structural issues (leaking roofs, decaying concrete structures) which would need significant work and investment to provide a sustainable future proved facility. This was not considered best value for the investment regardless of the value of that investment.
- 5.4 The recent Green Book assessment has again investigated the various options, including demolition and rebuilding, a do nothing, a minimal refurbishment and the complete refurbishment options. It was concluded that at this stage the most economical and timely option for the centre was the complete refurbishment option to complete the works that have already resulted in the strip out of the centre.
- 5.5 The Council has also made a further commitment that any investment in the facility would need to provide a building and associated systems that would last for 25 years, thus providing an 'as new' facility that could focus on operational issues rather than facing building maintenance issues as soon as the facility opened.
- 5.6 The selected option, full refurbishment, was selected as it provided best value against the objectives of the Council as set out in the considerations detailed above.

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 which has been designed to meet an unmet need in the area, delivering key health and wellbeing outcomes and significant indirect economic advantages as a result.
- 6.2 In addition, the Council has a general fiduciary duty in respect of achieving best value in the proper use of public funds. Cabinet needs to be content that the proposal still represents value for money and meets an identified need which remains present and relevant in a post Covid 19 climate and market place.
- 6.3 If minded to proceed with the proposal, there will be a need to ensure proper and effective agreements are entered into in order to ensure that the site is effectively and efficiently managed once operational, so that it meets the identified need for which it is being provided. 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. There will also need to be agreements in place (if not the management agreement) around the basis upon which any ongoing revenue support is provided which will need to comply with rules around public sector subsidies affecting market provision. 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.
- 6.4 In particular, the Council must ensure, through the processes described at paragraph 2.10 above, and factoring in the matters mentioned in that paragraph, that a viable end-user occupier able to provide the leisure services required is contractually secured by way of completed lease, management agreement and any other necessary ancillary agreements before the construction contract is let. A decision to let the substantive contract prior to securing a viable end-user occupier would likely be unlawful for *Wednesbury* unreasonableness (or for being irrational).

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 As previously reported, 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 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 total capital cost of the project is now £7.5m. This cost will be accommodated via funding within the existing approved capital programme, together with funding from the Town Deal as referred to in paragraph 2.3. The table below summarises the revised project funding.

Funding Summary	£ (000)
Revised budget requirement	7,500
Existing 2021/22 Capital Programme allocation	5,600

Advanced Town Deal Funding	398
Supplementary budget approval required	1,502
Revised Project Funding	
Staffs County Council Contribution	355
Sport England Contribution	100
Revised capital programme allocation	4,197
Town Deal Advance Works	398
Town Deal Funding	2,450
Total	7,500

- 8.2 A project contingency is contained within the overall project budget of £7.5m.
- 8.3 The total expenditure incurred against the capital allocation for the scheme as at 20 April 2021 is £1.063. This expenditure predominately covers site and structural surveys and strip out works which have taken place in order to be able to calculate the refurbishment costs. These costs are being monitored and reported to the “Capital, Assets and Commercial Investment Review Group” (CACIRG) as part of the overall Capital Programme.
- 8.4 As previously reported, there is a requirement for the Council to provide a subsidy to the CIO over the first 5 years of operation of the refurbished centre. The amount of subsidy will be between £61,000 based on the CIO best case business plan and £248,000 realistic 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.
- 8.5 The Council will need to make provision in the Medium Term Financial Strategy (MTFS) for business rates and a level of subsidy. The first year of trading will inform the amount of subsidy required in the initial years and whether there is an ongoing requirement for underwriting and if so at what level which will need to be addressed in future years MTFS.
- 8.6 It should be noted that based on the business plan submitted by the CIO the centre will incur losses in the first three years of operation and will not achieve a break-even position until year 4 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.
- 8.7 The amounts contained in this report (£7.5m) are exclusive of VAT as the Council can reclaim VAT payments on capital projects.
- 8.8 In accordance with the Council’s Financial regulations, “no expenditure shall be incurred on any scheme which is to be financed, in whole or in part, by means of a grant or contribution from central government or another person or body until a written commitment, to the satisfaction of the S151 Officer, has been received by the Council from the relevant government department, person, or body that it will be paid”. Therefore the Town Deal process of completing a detailed business case in line with the Green Book needs to be completed and signed off prior to awarding and commencing the refurbishment works.

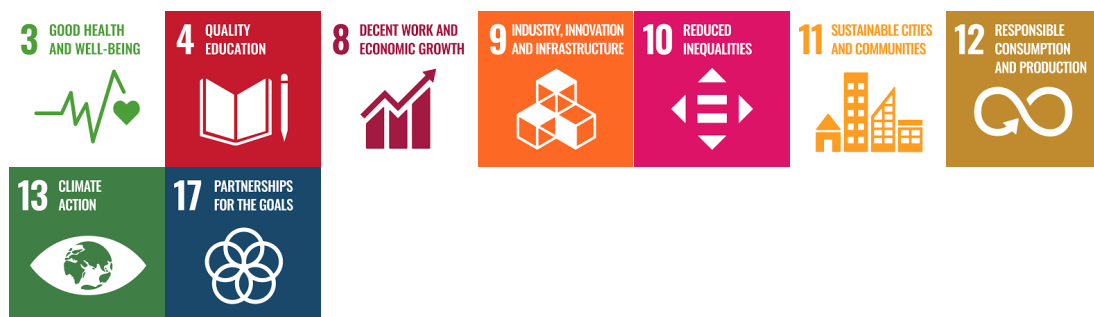
9. **Major Risks**

- 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 Should the Community Group fail to deliver a sustainable operation and the building transfers back to the Council. This scenario is the worst case as all efforts will be put into making the operation a success, which will include revenue subsidy in initial start-up years. Should this occur the Council will need to secure another third party to operate the facility.
- 9.1.3 There is insufficient capital budget – A sizeable capital allocation, sufficient to re-open the sports centre, is being resourced by the Council and the opportunity for external funding is being explored on behalf of the Council.
- 9.1.4 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 this demand and in particular the more profitable elements. The Post COVID operating environment may impact on this but as yet it is untested.

10. UN Sustainable Development Goals (UNSDG)

10.1 This project is intended to enable the updating and re-use of a dilapidated community leisure facility bringing with it sustainability improvements, regeneration and economic benefits as well as social and health benefits associated with leisure provision. In that respect, the project supports the realisation of the following UNSDG objectives:-



11. Key Decision Information

11.1 This is a Key Decision

12. Earlier Cabinet/Committee Resolutions

12.1 The following previous reports relate:-

- Cabinet 17 March 2021
- Cabinet 9 September 2020
- Cabinet 22 April 2020
- Cabinet 18 March 2020
- Cabinet 15 January 2020
- Cabinet 6 November 2019
- Cabinet 16 October 2019

13. List of Appendices

13.1 ANNEX C and the Green Book Assessment submitted to MHCLG

14. **Background Papers**

14.1 None