

REPORT TO	ON
COUNCIL	25 September 2019



TITLE	REPORT OF
Development of a new Leisure Campus in South Ribble	Interim Chief Executive/ Assistant Director of Projects and Development

IS THIS REPORT CONFIDENTIAL?	NO
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PURPOSE OF THE REPORT

1. To bring before Council the history of the Leisure Campus project over the past few years and provide an up to date assessment as to where the project currently sits.
2. To provide a context for the project in terms of an understanding of the current state of the Leisure Centre stock within South Ribble.
3. To provide options around potential next steps for the project going forward.
4. To provide a brief summary as to the current Management operation of South Ribble's Leisure Centres and request permission to explore a number of potential options as to the future management arrangements for the Council's Leisure Centres.

RECOMMENDATIONS

5. That Council request officers prepare a Master Plan for the future of Leisure Services and Leisure facilities in South Ribble to be considered by a newly set up cross party working group to be ultimately brought back and adopted by full Council.
6. That Council authorise officers to explore the financial options outlined in the report to provide a sustainable financial solution to take forward a Leisure Campus project.
7. That Council requests officers to draw up a costed investment plan for the Council's remaining Leisure Centres that is affordable and reduces the on-going revenue subsidy at those sites for the next 5 years.
8. That Council formally requests officers to consider future management options for the Council's Leisure Centres. To bring back recommendations as to the way forward which includes the possibility of continuing to work with our current operator in the short and long-term against alternative options available including a potential in-house operation and a Trust operation with a view to reducing the on-going Leisure subsidy.
9. That Council authorises officers to create a budget of £50,000 in order to seek the necessary, legal, financial, HR and Leisure advice and support, to develop viable future Leisure Centre management options.

REASONS FOR THE DECISION

10. It has been recognised for a long time that a decision is required as to where the Council should go with regards to the future development of our Leisure Centres. The conditions survey highlighted in this report shows that for the Leisure Centres to standstill there will need to be a significant investment. In addition considerable time and resource has already been spent in looking at various options around building a new Leisure facility in the Borough. The current project highlighted in this report has involved a commitment of over £0.5m in developing the scheme to this point. This context has led to this report and the decisions and recommendations put before Council today.
11. The current contract with South Ribble Community Leisure Ltd and SERCO Leisure Operating Ltd ends on March 31 2021. Work now needs to commence of providing Cabinet options as to how the Leisure Centres could be managed post March 2021.

CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Clean, green and safe	x	Strong and healthy communities	x
Strong South Ribble in the heart of prosperous Lancashire	x	Efficient, effective and exceptional council	x

BACKGROUND TO THE REPORT

12. It has been known for some time that the Council's Leisure Centre stock is ageing and will require significant investment, replacing or closing in the near future. Leyland Leisure Centre for example was built in 1974 and is approaching the end of its life. A condition survey carried out in 2016 showed at that time that there was a maintenance programme of £1.4m required at the centre through to 2021 in order for the centre to stand still in terms of repairs and maintenance. A similar position is also apparent at Bamber Bridge and Penwortham Leisure centres which were built in in the early 1980s and have a combined maintenance programme of c£2.7m through to 2021 in accordance with the condition survey carried out in 2016. (See background papers). South Ribble Tennis centre built in 1994 and extended in 2000 has been invested in and does not have a Swimming pool. However there is still a backlog in maintenance of £0.9m through to 2021. This amounts to a total of £5.2m of backlog maintenance that has been identified through condition surveys at the Council's Leisure Centres that is required through to 2021.
13. Whilst the condition surveys carried out were not presented to Cabinet at that time, the knowledge that our Leisure centre stock was ageing and falling into dis-repair provided the context in which consideration was given to the development of a new Leisure Centre in the Borough.
14. Through 2016/17, a facilities review was commissioned and a number of concepts were considered including the development of one Super-sized Leisure Centre in the Borough and closing our existing Leisure stock. A number of sites were considered for this option. Politically however it was felt that closing all the existing Leisure Centres to be replaced by one new centre would not be the wish of local communities who valued their links to local centres.
15. In January 2017 Capita were commissioned to prepare a West Paddock Community master-plan linked to the concept of One Public Estate (OPE), bringing on board public and private sector partners notably the Health Service, LCC etc. into creating a single Leisure and Community Hub across the West Paddock site in Leyland that would replace the

existing Leyland Leisure Centre. Whilst there was support for this concept it became difficult to agree funding and a time line for the project.

16. During 2018 a joint working group of Members was set up which began to pull together a brief for a Campus style Leisure Centre on the West Paddock site that would replace the existing Leyland Leisure Centre. The brief decided upon was about having a high quality attractive building that was environmentally sustainable and would also act as a destination venue that would interact with the open space and wooded area of West Paddock and Shruggs wood. The brief culminated in a Cabinet report been taken in June 2018 which agreed to the appointment of partner consultants to help take the project forward. The report also agreed to the appointment of a client Project Director to act on behalf of the Council in managing the project. A further report submitted to Cabinet on 12th September saw an agreement to appoint consultants Faith and Gould procured through the PAGABO framework on a fixed fee contract of £1.8m to support the Council through the design, procurement and the building of the proposed new Campus style Leisure Centre. There was a belief at that time, based on schemes elsewhere notably Ellesmere Port, that the cost of such a project would be in the region of £15m and this was allowed for in the Capital programme of the Council going forward.
17. Towards the end of 2018 there was a recognition by the Project Director, the consultants and officers of the Council that the brief agreed upon was likely to mean that the overall cost of the project would considerably exceed the £15m budgeted for. Accordingly a report was written for Cabinet in January 2019 but did not go to any formal Council committee.
18. In February/March 2019 the project brief was formally costed by Faith and Gould with a result that the cost of the delivering of the agreed brief on the West Paddock site was around £27m and not the £15m originally envisaged. This was reported to the previous officer leadership of the Council who agreed that a cost engineering process was undertaken. This was done on the basis of maintaining the integrity of the brief for the project which had been agreed. The cost engineering process has resulted in the current project now been considered which has a cost of circa £23.7m subject to detailed design and the procurement process. A second option has also been put forward with additional income generation facilities with a cost back up to around £26.5m. Both costings do take account of buildings inflation and all fees and preliminaries. (Brief and costings for the project attached to this report as appendix 1)
19. In May 2019 through the local elections the Administration of the Council changed and a new Cabinet was formed. The new political leadership of the Council were unaware of the increase in the cost of the proposed project.
20. This report has been requested by the new Administration as a means of starting a dialogue within the Borough as to potential options available in taking the project forward that is affordable and does not restrict the ability of the Council to deliver on its wider ambitions. It is worth noting that so far the Council has committed £0.5m towards this project. This project also needs to be set in the context of delivering a planned Sports playing hub for the borough which has been highlighted on the back of the new Playing field strategy now adopted by the Council as a support to the Local Plan.
21. Alongside the consideration being given to the building of a new Campus style Leisure Centre in Leyland and addressing the physical condition of the other Leisure sites, there is also an urgent need to consider the future Leisure Centre management arrangements in the Borough.
22. The Current Leisure Contract is managed primarily through two agreements both of which end on 31 March 2021. The first is termed a Leisure Services Agreement and is between South Ribble Council and South Ribble Community Leisure Ltd which is a bespoke Trust set up in 2005 by the Council to act as the conduit between the Council and the private

Leisure Operator who currently manage the Leisure Centres in South Ribble. The second agreement is termed the Direct Agreement and is between South Ribble Council and SERCO Leisure Operating Ltd which is a private company who manage the Leisure Centres on our behalf through the Trust. Work is now underway with early discussions taking place with both our current Leisure operator and potential other organisations putting forward alternative Leisure delivery models. The next stage is for Council to consider requesting officers to undertake a thorough options appraisals on future Leisure centre delivery options post March 2021. Whatever delivery option is agreed upon for the future will be heavily influenced by whatever decision is taken on the development of the Leisure centres into the future.

23. Going forward it is crucial that the future of the Leisure Management contract, the delivery of new Leisure Facilities, deciding the future of the existing Leisure Centre stock and the delivery of a new Sports Playing Pitch Hub are considered in the round through the production of a concise master plan for the future of Leisure Services and Facilities in South Ribble Borough.

DETAILED CONSIDERATIONS

24. There are three key issues that provide the context and rationale for this report. The first is how the Council wishes to take forward the current Leisure Campus project that is on the table on an affordable basis within the wider framework of the Medium Term Financial Plan (MTFP) at South Ribble
25. The second issue is for Council to consider what direction the future management of the Council's Leisure centres should take, given that the current contract ends on March 31st 2021. This is a complex piece of work which officers will need to undertake to provide Council with potential options around Leisure Centre management going forward.
26. The third issue is to consider the future of the existing Leisure Centres in South Ribble and how they can be sustainably invested in relation to decisions made on what new Leisure Facilities will be developed in the Borough
27. Following the Cabinet decision highlighted above in September 2018 and the appointment of consultant partners Faith and Gould in October 2018, extensive work has taken place in developing a project to build a new Campus style Leisure facility on the West Paddock site adjacent to the Civic centre in Leyland.
28. Initial emphasis was given to bringing to life the brief agreed through Cabinet and providing a vision of what a Campus style Leisure Centre could look like on the West Paddock site or as a stand-alone centre in another part of the Borough (See appendix 2). It is clearly a very exciting scheme which would represent a destination building that interacts with the special landscape of Shruggs wood situated next door. The scheme proposed also reflects the aspirations of the new administration notably, Health and Well-being and the Environment and would allow the Council to focus on initiatives within and around the new facility on Health inequality and Health literacy. The new facilities would include a new 25m, 8 lane swimming pool with a spectator gallery, a 4 court sports hall, a number of meeting and function rooms, a new Gym, Spin and toning studios, a destination café which interacts with the outside and plenty of circulation space. A key part of the brief is the work outside the building which brings Shruggs Wood around the new building and provides a link to the Civic centre and also crucially, pedestrian and cyclist access onto the emerging Green links network (The Leyland loop) currently being developed by the Council. It is worth noting that the building complex itself would be suitable to be developed on a different location within the Borough if that was the ultimate decision of the Council.
29. Whilst considerable work took place early on in animating the brief, what needed to happen quickly was for the brief to be fully costed and a business plan put in place. This was done

during February to May this year. As highlighted above, what quickly became apparent was that the brief developed would cost more than the £15m allocated for in the Capital programme. It was crucial that the new costings for the project were set against a business plan to assess the affordability of the scheme. The Business case for the project was finalised in June of this year along with a Social Value Plan which are available as background papers to this report. The basis of the feasibility and business plan is to show the future financial position of the Council if the decision was chosen to build the new Leisure Campus project based on borrowing the money required to build the new facility. The business plans shows the new Leisure Centre will generate considerably more income compared with the old Leyland Leisure Centre. This was calculated using a recognised Sport England facilities planning model (FPM) which looks at latent demand for Leisure centre use and applies it to a financial model. The latent demand model was applied to a particular location but could be applied to different locations with a similar outcomes providing that location was near urban centres of population. Further work would be done on this when and if a final location for the new centre is chosen. However, the new revenue achieved would not fully cover the borrowing costs if 100% of building costs were met by borrowing. This is covered in more detail in the finance section of this report below where proposals/options are highlighted as to ways in which the Leisure Centre building costs could be funded differently which would reduce the borrowing costs required making the scheme more affordable. This forms the basis of the second recommendation put forward to Council in this report.

30. A further proposal which has also been requested by Council to be brought forward as a recommendation in this report is for Officers to consider investments in the Council Leisure property estate as a whole. There will be a number of options as to how this could be taken forward and the third recommendation brought before Council today is a request for Officers to consider how an investment plan could be brought forward about the wider Leisure estate which improves the Leisure offer within the borough but also seeks to reduce the on-going Leisure subsidy working with our existing provider.
31. The second issue concerning the future management arrangements for our Leisure centres also requires a direction of travel going forward. Again the do-nothing option has been rejected as the current contract to manage the Leisure Centres ends on 31 March 2021 and work to consider future options needs to begin now and the fourth recommendation brought before Council today reflects that aspiration.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

32. Over the past few years a number of alternative options have been considered around the future of South Ribble's Leisure Centres but discounted. This is highlighted in the background section of the report. This has meant that essentially a 'do the minimum option' has been pursued. This approach could continue but at risk given the condition of the Leisure centre stock as highlighted above with reference to the condition surveys carried out in 2016.
39. On the basis of the condition survey report (See appendix 1) there will be a need to invest a considerable amount of money into our existing Leisure Centre stock just for the Leisure Centres to stand still.
40. On the basis of the above information the do nothing option would not be advisable and has been rejected as a way forward both in terms of the wish to investigate how we could fund the new Campus Leisure centre on an affordable basis and consider affordable ways of investing in the rest of the Leisure estate.
41. Whilst the do nothing option has been rejected a considerable number options do still remain open as to how Council could choose to move forward in developing and improving the Leisure estate in South Ribble. Firstly there is the option of continuing with the current

project of building the new Campus Leisure centre on West Paddock or securing a completely new site for the new Campus Leisure Centre. Secondly there are a number of options outlined in the financial section below as to how the new Campus Leisure Centre could be funded. Thirdly there will also be a number of options as to how Council could develop and sustain the remainder of the Leisure Estate. This could include closing elements of our existing Leisure centres as a means of sustaining and developing centres e.g. closing a second swimming pool beyond Leyland as means of developing the rest of a given site and to financially support the new 8 lane pool built in Leyland or elsewhere.

42. In terms of the future Leisure Contract the do-nothing option cannot be an option. The option of investigating future potential Leisure Centre delivery models needs to be pursued at a pace given the Leisure Contract end on 31 March 2021.

WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

FINANCIAL IMPLICATIONS

43. With regard to the provision of a new leisure facility, the feasibility and business plan shows that the forecast revenue position in respect of operating the new facility improves considerably compared to the existing Leyland Leisure Centre. However, there is an additional revenue cost in relation to funding the significant capital investment required to build a new facility. The borrowing costs of a £23.7m scheme outweigh the improved revenue position of having a new Leisure Centre. The approved budget and MTFS assumptions were based on borrowing to fund a £15m project, and therefore there is a budget shortfall to be addressed in order to establish if the proposed new facility is affordable.
44. Based on the costs of the project and the business plan commissioned, a considerable amount of financial modelling and sensitivity analysis has been done to show alternative ways of funding the scheme and also to model the impact of changes in the assumptions in the business plan on the affordability of the proposal. It is important to note that the business plan assumes that the centre will continue to be managed on the same basis as currently and therefore includes a management fee and profit element, assumes VAT relief on sporting income and 100% NNDR relief. In addition to the operating costs in the business plan, an annualised figure for Lifecycle costs of £262,000 has been incorporated into the forecasts.
45. Based on a total capital cost of £23.8m, the revenue implications of the following options have been modelled and the details are set out in the background papers to the report:
- A - With Full Amount Funded From External Borrowing
 - B - With £10m Financed From Internal Balances, £13.8m from External Borrowing
 - C - With £15m Financed From Internal Balances, £8.8m from External Borrowing

In all three options above, an assessment has also been made of the impact of variations in operating income and expenditure. This recognises that there may be variations against the base assumptions in the business case for the new facility.

46. With regard to the future funding available for this project, the council is restricted by the City Deal as it is currently committed to paying over core funding to City Deal in relation to housing and commercial growth in the borough (New Homes Bonus, CIL and Business Rates).
47. Opportunities for funding this project are therefore limited and because there is still a funding gap to address, an assessment has been made of the marginal impact of a reduction in the capital cost or the use of alternative funding sources, such as reserves, external funding or capital receipts has been forecast (expressed as a revenue saving for each £1m met from other sources than borrowing).

48. The results can be summarised as follows:

	Comparative Funding Options	Shortfall against current revenue budget				
		Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
A	With Full Amount Funded from External Borrowing	731	566	529	522	516
	Impact of variations in operating income and expenditure	909	754	721	714	708
B	With £10m Financed From Internal Balances	594	431	396	391	387
	Impact of variations in operating income and expenditure	772	619	588	583	579
C	With £15m Financed From Internal Balances	535	373	340	336	333
	Impact of variations in operating income and expenditure	713	561	532	528	525
D	Impact of reducing borrowing by £1m	(42)	(41)	(41)	(40)	(40)

49. In assessing all the financial implications of a new facility in Leyland, a valuation of the potential capital receipt from current Leyland site has been undertaken. The market value of the site, assuming that existing buildings have been demolished with site cleared ready for redevelopment, has been valued at £700,000.

50. The report highlights that the stock condition survey work has identified significant costs for repairs and maintenance and replacements which is required to keep the existing centres open. In total, the forecast costs of works required in the medium-term for each facility are as follows:

FACILITY	Estimated Cost Of Works (£m)
Bamber Bridge Leisure Centre	1.413
Penwortham Leisure Centre	1.289
Tennis centre	0.954
Leyland Leisure Centre	1.360
Total	5.016

51. The business case includes assumptions in relation to irrecoverable VAT in relation to the annual running costs based on the current operational model. The operational model adopted for the facility is still to be determined and different options will also have different VAT implications. Specialist advice will need to be taken to determine if there is any potential irrecoverable VAT on both the running costs and the capital build costs and to explore ways to minimise that cost.

LEGAL IMPLICATIONS

52. Please see the Monitoring officer comments below.

AIR QUALITY IMPLICATIONS

53. In accordance with agreed Council policy the future development and management of the Council's Leisure Centres will need to take careful account of Air Quality implications within the South Ribble Borough

HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT IMPLICATIONS

54. There will be Human Resource and organisational development implications which will need to be taken account of with respect to the future development and management of the Council's Leisure Centres in South Ribble

ICT IMPLICATIONS

55. The future development of Leisure facilities in South Ribble will need to take advantage of the latest information technology and also help deliver the Council's adopted Digital strategy.

PROPERTY AND ASSET MANAGEMENT IMPLICATIONS

56. There are significant wide ranging property and asset implications of this report. The report is considering ways forward in investing in a key property asset of the Council notably its Leisure Centres. This report is also recommending that a piece of work is commenced on potential future management arrangements of the Council's Leisure Centre Assets.

RISK MANAGEMENT

57. Whatever direction the Council chooses to go in investing in a new Campus Leisure Centre, identifying a sustainable investment plan for the wider Leisure Centre estate and establishing a road map for the future management of the Leisure Centres in the future there will be a number of risk factors. Each project will develop bespoke risk registers as the project moves forward
58. There are clearly Risks associated with the present condition of the Leisure Centre stock which are on-going, given the maintenance backlog identified earlier on in this report. Appendix 1 identifies the key findings of the Leisure Centre Condition surveys carried out in 2016 which forms the basis of the risks of not addressing the key findings of the condition surveys.

EQUALITY AND DIVERSITY IMPACT

59. A full equality impact assessment (EIA) will be carried out if the Campus Leisure centre moved forward moves forward. It is likely with a new build that there will be both Equality and Diversity benefits with the scheme.
60. There will also need to be a full EIA carried out against any proposals over any future management arrangements agreed in the future for the Leisure Centres in the Borough.

COMMENTS OF THE STATUTORY FINANCE OFFICER

62. The council has an opportunity to assess its current Leisure provision and in determining the way forward, seek to address the challenging issues outlines in the report. Affordability and sustainability are going to be increasingly difficult particularly with the number of facilities in the borough and ageing leisure centre stock.
63. The ending of the current Leisure Contract provides an opportunity to achieve budget savings going forward and to work with an external provider to resolve funding issues.

64. The building of a new facility is not without financial risk. The forecast running costs and usage figures are based on a set of broad assumptions and market knowledge but they cannot be forecast with any certainty and there are many factors which can have a positive or negative impact. The financial modelling illustrated therefore allows for both a potential reduction in income and an increase in costs to present a more prudent position.

COMMENTS OF THE MONITORING OFFICER

65. Clearly this is a difficult and challenging situation. The council needs to make some important decisions within the very near future over the future of its leisure provision within the borough. There are a number of key issues that will need to be addressed. These issues should really have been addressed before now.
66. Our existing contract arrangements with the Leisure Trust and Serco are due to come to an end on the 31st of March 2021. That does not give us a great deal of time to decide on how we would like to proceed. There may be a necessity to negotiate an extension to the existing contract arrangements to allow more time for a considered decision as to the way forward. Longer term we will need to decide whether we want to continue with something similar to our existing arrangements or have a direct agreement with a commercial supplier or indeed whether to provide leisure services through an in house operation. There are risks and opportunities associated with all such proposals. Questions such as degree of control over what is being delivered, ability to access external funds, pension liabilities and financial implications in general will need to be carefully considered.
67. Impacting on all of the above is the proposed Leisure Campus (whether located at West Paddock or elsewhere). Again a decision needs to be made within the near future on this. No doubt central to any such deliberations will be a consideration of the impact on the Medium Term Financial Strategy.
68. Speaking generally some clarity of thought over precisely what we want to achieve is required. The proposed Master Plan could help considerably in this regard.
69. Moving forward it is obvious that we will need to access external specialist advice – both in the legal field but also other areas (e.g. Finance). We shall ensure that the council's financial and reputational interests are protected.
70. Once it is clearer how we intend to proceed then it will be possible to set out in detail what the legal implications of such proposals will be. Clearly though we have to be mindful of contractual and procurement issues throughout. Also (if there is an external provider involved moving forward) then appropriate leases/licences will need to be drawn up. No doubt there will be insurance implications to consider.
71. One additional issue needs to be flagged up. In earlier Cabinet reports (17 October and 21 November 2018) it had been indicated that regular reports would be brought at significant stages of the Campus project. In particular the earlier report of the 17th of October had indicated that all decisions for expenditure over £100,000 would be taken to Cabinet. This has not happened. It had also been earlier indicated that a report to Cabinet would go on the 23rd of January 2019 – this also never happened.

BACKGROUND DOCUMENTS

Overall Summary per Site

<https://southribbleintranet.moderngov.co.uk/documents/s10624/SouthRibbleBoroughCouncilOverallSummaryPerSiteBackgroundpapers.docx.pdf>

Updated Feasibility Report

<https://southribbleintranet.moderngov.co.uk/ecSDDisplay.aspx?NAME=SD230&ID=230&RPID=665072>

Social Value Strategy

<https://southribbleintranet.moderngov.co.uk/documents/s10625/SouthRibbleSocialValueStrategy1x8.pdf>

APPENDICES

Appendix 1 - Full Brief and Costings for the existing proposed Leisure Campus project

Appendix 2 - Green Links and Leisure consultation report.

Appendix 3 - Forecast annual revenue costs

GARY HALL/NEIL ANDERSON

INTERIM CHIEF EXECUTIVE/ASSISTANT DIRECTOR OF PROJECTS AND DEVELOPMENT

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