

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 10 JULY 2018

Title:

LEISURE CENTRE INVESTMENT: FARNHAM, GODALMING AND CRANLEIGH

[Portfolio Holder: Cllr Jenny Else]

[Wards Affected: All]

Note Pursuant to Section 100B(5) of the Local Government Act 1972

Annexes to this report contain exempt information by virtue of which the public is likely to be excluded during the item to which the report relates, as specified in paragraph 3 of the revised part 1 of Schedule 12A to the Local Government Act 1972, namely:-

Information relating to the financial or business affairs of any particular person
(including the authority holding that information)

Summary and purpose:

As part of the continued improvement of our leisure facilities a feasibility study was completed in October 2017, by SLC consultancy, to identify viable options for future leisure investment across Waverley.

The outcomes of the feasibility report are supported by a robust assessment of the need for improved leisure facilities in Waverley.

A summary of the viable options derived from the SLC report were presented to the Community Wellbeing O&S Committee in November 2017 and were received positively. Some engagement with Cranleigh Parish Council also took place during the feasibility work.

This report presents the most favourable viable options and requests formal approval to progress with detailed design and procurement of extensions to Godalming and Farnham Leisure centres. It also requests approval to begin a consultation process for investment in leisure in Cranleigh.

How this report relates to the Council's Corporate Priorities:

The wellbeing and prosperity of our communities is a priority for the Council and the provision of leisure and recreational facilities will enable residents to be active, lead a healthy lifestyle and where appropriate progress their sporting ambitions.

Future investment in leisure facilities will be based on a robust feasibility assessment that offers value for money to the Council. External funding and developer contributions will be sought to supplement any capital cost.

Equality and Diversity Implications:

There are no Equality and Diversity implications associated with this report.

Financial Implications:

There are a range of proposals within this report, all of which have financial implications if the schemes are approved. The proposed improvements to Farnham and Godalming Centres require an investment of some £3.32m, inclusive of contingency and are anticipated to generate revenue improvement of some £410k pa. There are potential developer contributions which would substantially reduce Waverley's direct investment. Most of the figures within the report have been supplied by SLC consultancy.

The recommended funding of the Farnham and Godalming leisure centre proposals is given in the table below:

	£ m
Contribution from Brightwells Capital Receipt	2.5
Section 106 and other developer contributions	0.6
Other capital receipts	0.12
Total funding	3.22

There are a range of options in respect of Cranleigh Leisure Centre, from a new build on a new (though adjacent) site to a planned closure over a period. The most economic option while retaining a centre in Cranleigh is the new build option, which offers the lowest running cost over the period of its projected lifespan. There are planning risks associated with this route and the amount of investment required would necessitate external borrowing. However, the recommendation at this stage is to begin the exploration of a new site.

The most obvious financial implications are the potential improved management fee arrangements, but the profit share arrangements also offer potential revenue benefits as well. However, the profit share arrangements depend on the operating success of Places for People (PfP), the current management operator, and cannot be guaranteed. In addition, the fundamental changes to the centres and the financial structure proposed do offer PfP the contractual opportunity to invoke the 'realignment review' clause in its contract which could lead to renegotiation of management fees and profit share arrangements. Clearly Waverley officers would negotiate robustly in order to gain the best outcome for Waverley.

Legal Implications:

The current status of the leisure centre management contract is set out within the report, including the circumstances in which the Council receives a management fee from PfP and the level of fee currently received. Should the Council renegotiate the management fee under the 'realignment review' provisions as described above, the risk of such a review falling outside of the scope of the Public Contracts Regulations 2015, and other applicable procurement law, would be low as the review provisions are a term of the tendered contract. This would take place in the context of the management contract currently running until 2023.

Background

1. There are significant future housing developments in the Borough that will need to be considered in relation to leisure facilities provision. The increased population will undoubtedly put pressure on the existing leisure infrastructure in Waverley.
2. The Council has a proven track record in successfully delivering sustainable investments in its leisure facility portfolio having undertaken a series of developments as part of its previous Leisure Investment Strategy 2009-2015.
3. In order to continue improving the current leisure facilities and the offering to cope with Waverley's increasing population the Council commissioned a feasibility study in April 2017. The purpose of the feasibility study was to identify viable options for additional investment in Waverley's leisure centres.
4. Haslemere Leisure Centre was the most recent site to receive investment with a £4.1m refurbishment in 2014 and therefore no further investment is required at this time. This recent investment has been a great success with usage continuing to rise. The centre meets current and projected need, however we will continue to monitor this as part of our Leisure Facilities Strategy.
5. A new Godalming Leisure Centre was built in 2012 costing £5.85m and is currently oversubscribed. Farnham Leisure Centre was refurbished in 2010 costing £3.6m.
6. Cranleigh Leisure Centre was refurbished in 2009 at a total cost of £1.67m. However, due to the age of the centre (built in 1975), significant increasing maintenance and repair costs are becoming unavoidable. The longer the delay before further investment is made, the greater investment will ultimately be required to simply maintain the centre in Cranleigh.
7. The success of the most recent leisure investments is evident. The existing management contract was originally tendered in 2008 at a total management fee payable by Waverley to DC Leisure (now PfP) of £845k pa. As a result of continued contract negotiation, management action and capital investment Waverley currently receive a management fee paid by PfP of £70k pa increasing to £120k pa in 2018 – an improvement of some £965k pa over the 10-year period. The contract is currently running until 2023. In addition the leisure contract also creates a profit share payment to Waverley, which in 2016/17 exceeded £400k.
8. However, a change to the portfolio of leisure facilities, such as the proposed in this report, does give PfP the contractual opportunity to request a formal review of the contract terms. It is possible that PfP may seek to amend the contract terms, particularly the profit share terms, on the basis that the current proposals constitute a fundamental change to the facilities and trading operation that was originally tendered in 2008 and upon which the current financial terms are based.

Strategic Needs Assessment

9. Both nationally and locally there is a drive to encourage an active lifestyle. Waverley's Health and Wellbeing Strategy adopted in 2016, outlines the Council's commitment to promoting health and wellbeing within its communities. Physical activity features very strongly within the Strategy's priorities to develop a preventative approach and improve

the wellbeing of children and young people. Activity provided through leisure centres undoubtedly has a positive impact on the health and wellbeing of individuals as well as social and economic benefits.

10. A robust analysis of the need for sport and leisure facilities in Waverley was carried out as part of the development of the Indoor Leisure Facilities Strategy in 2017. The report concluded that although the current supply of sports halls and swimming pools in the area are more than adequate, in order to cope with the projected population growth elements of dry side provision would not be sufficient.
11. In addition to the needs analysis as part of the Indoor Leisure Facilities Strategy, SLC carried out a latent demand analysis which assesses the market potential based on a defined area and population. This analysis examined the likely total demand generated by a given population, for key income generating areas of leisure provision of health and fitness, general swimming and swimming lessons. This was then modelled against the existing total provision and projected increase in demand.
12. Both needs assessments have concluded the following:

A. Farnham

Farnham is projected to have 2,780 new homes under housing development plans. There is also very strong local competition for health and fitness facilities in the area, with approximately 17 other providers within a 5 mile radius of Farnham Leisure Centre.

Farnham Leisure Centre is showing a current and future oversupply in health and fitness, general swimming and swimming lessons, which indicates that the current facility is suitably sized. However in order to differentiate the centre from other competitors there is an opportunity to diversify its offer by providing new facilities to attract a younger and more family orientated market. There is an identified demand for indoor adventure play and climbing models that provide opportunities for children and young people to be more active.

B. Godalming

Godalming is anticipated to have an additional 1,520 houses over the next few years. This will create a demand for health and fitness in an area that is already in short supply.

Godalming Leisure Centre has exceeded the expectations of usage since it was initially designed. There has been an increase in health and fitness membership from c. 500 at the old centre to 2100 in December 2017. The gym is overcrowded at peak times and the area designated for spinning classes is not ideal due to the noise generated. The exercise class programme is very popular but at capacity. The majority of classes are booked up two weeks in advance and the lack of available spaces causes dissatisfaction amongst members.

Parking availability is also under pressure on this site. There are currently 70 spaces available for customers which struggle to cope with demand. Additional car parking will be necessary before considering further investment on this site.

C. Cranleigh

Cranleigh will see a significant number of new housing with planning consent already granted to build 2600 new homes at Dunsfold Park and a further 1700 in Cranleigh itself. Planned developments will increase demand for local facilities, particularly as the main facility, Cranleigh Leisure Centre, is no longer fit for purpose. The latent demand analysis has identified an undersupply for health and fitness as well as childrens swimming lessons.

Within the Indoor Leisure Facility Strategy, when comparing to other facilities, Cranleigh Leisure Centre has been graded as 'below average' in terms of the condition of the building. Significant capital investment will be required to maintain and keep the facility open. This increases the importance of finding a solution for this site as a matter of urgency.

Viable proposals

13. The Options Appraisal for Future Leisure Investment report, produced by SLC, has explored a number of options for redevelopment in Cranleigh as well as extensions to Godalming and Farnham leisure centres with a view to better meet local demand and deliver a return on the Council's investment.

Farnham Leisure Centre

14. It is proposed that the Council considers the funding of an extension to incorporate children's soft play and "clip and climb" facility, with the addition of a larger café area. This will involve the relocation of the current offices. The local supply of such facilities appears to be low in the surrounding area therefore offering an opportunity for Farnham Leisure Centre to improve and diversify the current offering. (Exempt) Annexe 1 shows the draft drawings of this proposal.

Godalming Leisure Centre

15. It is proposed that the Council supports an extension of the current site to increase the size of the gym by 35 stations, introduce a second dance studio and double the size of members changing facilities.

However, the car park at Godalming Leisure Centre is insufficient to meet current levels of use and any extension to the centre will not be viable without increasing the car parking provision. The most feasible way of achieving this is through an extension of the existing car park creating approximately 88 additional spaces on an unused corner of the adjacent Broadwater School land owned by Surrey County Council.

The existing car park was leased from the school for an initial 7 years. This lease will come to an end in 2019 and negotiations to extend it have already begun with Surrey County Council and Broadwater School. The timing of the lease extension conversations offers an opportunity to discuss the potential extension to the car park at the same time. The drawings of a proposal including the car park extension are shown in (Exempt) Annexe 2. The cost of building the additional car park is included in the costs of the building extension that are presented in more detail below.

Cranleigh Leisure Centre

16. It is proposed that the Executive approves in principle the investment in leisure in Cranleigh. The existing facility mix is meeting the current demand for the area and therefore would remain the same for any potential refurbishment or new site. A higher quality and more attractive centre is very likely to attract more customers and in order to future proof the new or improved facility the changes need to cater for an expected increase in use. This should accommodate the increased use following the 2,600 new homes at Dunsfold Aerodrome and the additional 1700 homes in Cranleigh. A new or improved site should include an extended gym, more flexibility in shallow water space by including a movable floor to the main pool, additional changing facilities as well as additional multi purpose exercise studios.

Business Plans

17. The Options Appraisal work by SLC has produced estimated development costs that are based on industry benchmarks and are therefore as accurate as they could be prior to undergoing a formal procurement process. They also include an indication of management fee uplift for each development. It is important to note however that the position is not fully agreed and further negotiations with PfP will have to take place before proceeding with any investment.
18. The Council has a management contract with PfP for the operation of the Council's five leisure facilities which expires in July 2023. The contract was originally set up in 1996 and was subject to a 15-year negotiated extension which began in July 2008.
19. The business plans developed by SLC are a robust, independent assessment of projected income and expenditure based on industry knowledge and benchmarking of similar developments. They have been developed for a 15 year period, which is considered suitable given the fact that 5 years remain on the existing leisure management contract with PfP and any new contract is likely to be for a further 10 years as a minimum. All of the investment options have been calculated over a lifespan of at least 15 years for comparison purposes. However a new build leisure centre in Cranleigh will be expected to have lifespan of over 30 years.

Farnham Leisure Centre

20. Projections for the additional income generated by the proposed investment at Farnham Leisure Centre are based upon anticipated visitor numbers for the soft play and 'clip and climb' facilities. They also include assumptions regarding the number of children's parties and the secondary spend associated with such facilities.
21. The additional expenditure includes staffing and other associated operational costs together with proportionate additional central costs and operator profit. The figures are also inclusive of professional fees and contingency.
22. The 15-year revenue business plan shown in Exempt Annexe 3 also includes an indicative repayment for the £1.475M development cost. These repayments assume the capital funding for this development will be taken from Waverley reserves and no borrowing charges will apply.

23. The extended facilities at Farnham Leisure Centre are estimated by SCL to generate an average operational surplus. The figure is detailed within Exempt Annexe 3 and is subject to negotiation and agreement with the operator PfP.

Godalming Leisure Centre

24. Projections for the additional income generated by the Godalming Leisure Centre extension are based on the increased capacity of the health and fitness facilities as a result of the proposed investment.

25. The 15-year revenue business plan shown in Exempt Annexe 3 includes the additional income and expenditure together with proportionate additional centre costs and operator profit using industry benchmark ratios.

26. The additional 36 stations in the extended gym provide capacity for a further 792 members generating an additional income. The additional studio will double the existing studio capacity to accommodate the increased membership and to provide capability for more 'casual' or 'pay and play' exercise class attendees.

27. The additional expenditure projections take account of the increased class programme (additional instructors) and an assumed increase in general operational costs (maintenance, utilities, admin etc.)

28. The extended facilities at Godalming Leisure Centre are estimated by SCL to generate an average operational surplus. The figure is detailed within Exempt Annexe 3 and is subject to negotiation and agreement with the operator PfP.

Cranleigh Leisure Centre

29. Over the next few years a significant capital outlay will be required in order to continue operating and maintain the current site to a reasonable standard. This investment would only cover the essential lifecycle costs and would have no return on investment for the Council.

30. Initial options have been explored for the future of Cranleigh Leisure centre and these include a new build on an alternative location or a fundamental remodelling of the existing site. The options of doing nothing or closing the centre all together have also been explored for a more comprehensive options assessment. The table below summarises the business case for all of the four options explored over the lifespan of each option.

Options	Estimated Capital cost	Annual Average Saving ¹	Annual Average management Fee	Annual Average Lifecycle cost	Annual Borrowing cost	Potential Lifetime of Building	Net cost over lifetime
	£	£	£	£	£	Years	£
New build	12.7m	614,000	-	- ²	621,000	30	210,000
Remodel	8.7m	403,000	-	- ²	677,000	15	4,110,000
Business as usual	-		149,000	300,000		10	4,490,000
Timed Closure	-		149,000	300,000		5	2,245,000

31. These options were presented to Community Wellbeing O&S committee in November 2017. The new build option was the most favourable one based on the lesser net cost over its lifetime, but also as there will be no customer and service disruption. Officers were directed to further explore the option for a new build centre and the remaining 3 options were dismissed on financial grounds.

32. A new build option will require significant financial commitment from the Council, but offers a greater return on investment, as well as providing an enhanced offering for leisure centre users. This option also offers the greatest opportunity for renegotiation of PFP's CLC management fee arrangement, which at the moment is costing the Council £149k per year. Capital investment on this scale will necessitate external borrowing. Borrowing costs vary on a daily basis depending on the repayment options and could be more or less than shown above.

33. SLC's income projections for the new build option are based on actual income for the existing site plus additional income for the increased size of certain facilities. Additional income in other areas will be as a result of the 'new build factor' i.e. a new centre will naturally attract more users than the existing facility.

34. Expenditure projections for the new build option are based on actual expenditure for the existing site plus additional staffing expenditure for the increased size of certain facilities (e.g. gym, studios and café.) Reductions in premises costs are projected due to reduced maintenance liabilities and energy consumption. A new facility will require less maintenance than the existing centre and will benefit from more energy efficient plant, thereby reducing utilities costs significantly.

35. The 15-year revenue business plan shows that the Council could expect to receive an improved management fee payment the details of which can be seen in Exempt Annexe 3.

¹ Inclusive of repairs and maintenance costs

² Lifecycle costs for this option have been taken into account when calculating the annual saving.

36. More details of both business plans with detailed income and expenditure is included in Appendix F of the Options Appraisal for Future Leisure Centre Investment report by SLC.
37. In order to progress with this development it would be prudent to carry out more detailed consultation on the location of a potential new site. The cost of a six month consultation will be covered by existing resources.

Risks and Project Management

38. There are a number of risks associated with redevelopment projects. An initial risk register has been produced which covers the risks from the very early stages of design up to the completion of the tender stage. A more comprehensive risk register will be created at a later stage to cover the risks further into the process.
39. PFP are one of the largest leisure operators in the country with many years of successfully managing leisure centres. Their expertise in operating leisure facilities has been invaluable during past redevelopment projects where PFP had the key responsibility to project manage the delivery.
40. The project management structure of the previous investment in the leisure centres worked well and reduced Waverley's risk in relation to loss of income and project delays. The structure placed PFP as the project lead which allowed the Council to take advantage of PFP's industry knowledge and extensive project management experience of other leisure centres. This process worked well and delivered a high quality product aligned to service need. It is intended for PFP to have a key part in project managing the redevelopment proposed in this report.

Conclusions

41. The Council's leisure centres in Cranleigh, Godalming and Farnham have played a critical role in providing publicly accessible sports and leisure facilities for the residents of these towns. The projected population growth across the borough creates a need to enhance and improve the existing facilities in order to meet the future demands of Waverley's local population. The key findings of the options appraisal work have identified opportunities for the Council to invest to save in its leisure portfolio.
42. The facilities at Farnham Leisure Centre continue to meet demand for key activities such as swimming and health and fitness. There is however, an opportunity to diversify the offer by providing new soft play and climbing facilities to appeal to a broader market. The proposed extension at Farnham Leisure Centre is projected to generate a significant revenue improvement compared to the existing management arrangement.
43. There is strong evidence to support an extension at Godalming Leisure Centre to provide additional gym space, an additional studio and members changing rooms. A parking arrangement is also integral to this project as current provision is insufficient. The proposed extension is projected to generate a significant revenue improvement compared to the existing management arrangement.

44. The most favourable option for Cranleigh Leisure Centre would be for a new build on an alternative location, and though requiring the most significant investment it is the most economic of the options in the long term. The new build option will ensure that the current centre would remain operational during the build of the new site, minimising disruptions to users and eliminating the risk of closure costs.
45. After initial consultation with Members it was felt that although there is a need for a new leisure centre in Cranleigh, more work needs to be done to identify the most suitable location for a new facility that mitigates some of the risks identified. It is proposed that consultant support is appointed to facilitate the consultation work. A separate budget will be required to carry out this work over a 6 month period.
46. More detailed and robust negotiations with PfP will need to take place in parallel to the tender process for the works to ensure that Waverley achieves the best possible return from the capital investment.
47. All proposed projects, as with past refurbishments, will be tendered as a design and build contract reducing the construction and financial risk to the Council. PfP will be asked to take a project management role through the refurbishment projects.

Recommendation

That the Executive recommends to Council that:

1. A capital budget of £3.22m is agreed and officers progress with more detailed specification and procurement of the Farnham and Godalming leisure centre schemes, subject to negotiations with Places for People on future management fee payments (PfP);
2. The Farnham and Godalming schemes are funded as per the table included in the financial implications section and the final funding arrangement be delegated to the Strategic Director (S151 Officer) in consultation with the Deputy Leader;
3. Officers are given the delegated authority to negotiate the management fee terms for the remainder of the contract with PfP, on the basis that the extended facilities are delivered;
4. Authority is delegated to the Strategic Director in consultation with the Deputy Leader to enter into appropriate lease and/or contractual arrangements to enable the car park lease extension at Godalming Leisure Centre.
5. The Council commits to a multi-million pound investment in leisure facilities in Cranleigh and agree that officers begin a detailed consultation, with the support of external consultants, to identify a potential location for the Cranleigh Leisure Centre and report back to Executive.

Background Papers

- Options Appraisal for future leisure centre investment December 2017

- Indoor Leisure Facilities Strategy 2017-2027
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