

CAB3082(LC)
THE OVERVIEW AND SCRUTINY COMMITTEE
CABINET (LEISURE CENTRE) COMMITTEE

REPORT TITLE: WINCHESTER SPORT AND LEISURE CENTRE – FULL BUSINESS CASE

THE OVERVIEW AND SCRUTINY COMMITTEE – 31 JANUARY 2019
CABINET (LEISURE CENTRE) COMMITTEE - 11 FEBRUARY 2019

REPORT OF PORTFOLIO HOLDER: Councillor Lisa Griffiths, Portfolio Holder for Health and Wellbeing

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WARD(S): ALL

PURPOSE

The Council has been considering the provision of a new Sport and Leisure Centre for the District for several years, and in October 2018 the Planning Application for the Centre at the Garrison Ground, Bar End was approved.

During 2018, two separate procurement processes took place. The first sought to appoint a contractor and determine the cost for the construction of the new centre, whilst the second was to procure an operator for the new Centre and to identify the annual management fee which would be received by the Council. These are the key elements of the Full Business Case for the new Sport and Leisure Centre.

This report considers the Full Business Case for the project and covers both the construction and long-term operation of a new Sport and Leisure Centre for the District.

RECOMMENDATIONS:

It is recommended that The Overview and Scrutiny Committee:

Note the progress made to date and considers whether to provide any comments to be considered by the Cabinet (Leisure Centre) Committee on 11 February 2019.

It is recommended that Cabinet (Leisure Centre) Committee:

1. Acknowledges and notes the contents of the Full Business Case (FBC) in Exempt Appendix A.
2. Approves the preferred option for a new Sport & Leisure Centre as detailed in the FBC.
3. Authorises the Corporate Head of Asset Management, subject to agreeing terms, to enter into a construction contract with Willmott Dixon Construction Ltd to build the Sport and Leisure Centre.
4. Delegates to Head of Programme authority to;
 - a. agree terms for the Funding/ Collaboration agreement with the University of Winchester.
 - b. to agree and enter into a contract with the Operator based upon the outcome in relation to facilities to be included within the management operation.
5. Subject to Council approval of the revised budget, approves the total capital expenditure and associated revenue consequences as detailed in Exempt Appendix A for the construction and associated costs of the Sport and Leisure Centre.
6. Authorises the Corporate Head of Asset Management to oversee the construction of the Sport and Leisure Centre on the Garrison Ground.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

1.1 This project supports the Health and Happiness outcome of the Council Strategy through the provision of new facilities to meet the needs of a broad cross section of our communities for now and in the future.

1.2 The Vision for the Sport and Leisure Centre is one that:

- Reflects sporting needs and aspirations for the people of our district
- Is flexible to provide for current and future sporting needs and trends
- Is deliverable and affordable
- Is in a park setting providing additional sporting and leisure opportunities
- Provides an excellent water based offer for community use

1.3 The objectives for this project are:

- To provide accessible public sport and leisure facilities to improve the health and happiness of the District's residents
- To increase participation in sport and active recreation
- To improve the quality and energy efficiency of Winchester's main leisure facility
- To provide a Sport and Leisure Centre that is financially sustainable

2 FINANCIAL IMPLICATIONS

2.1 The proposed new Sport and Leisure Centre is estimated to provide the Council with an overall net surplus over its 40 year life and so produces a positive net impact on the General Fund when compared to the revenue costs of the existing leisure centre as well as producing a better financial position than extending the life of the existing centre.

2.2 However, due to the timing difference in incurring initial financing costs and receiving income from the operator, there will be a negative impact on the General Fund until an estimated annual surplus position is reached in 2030/31 with the most significant deficits from 2020/21 to 2022/23. It will be necessary therefore to cover this deficit by using earmarked General Fund reserves; however, once a surplus position is reached, the Council can then elect to begin to replenish those reserves or increase spend on service expenditure elsewhere.

2.3 The total cost of the leisure centre is being funded partly by external contributions with the majority funded by prudential borrowing. The detailed financial implications including the inflation and borrowing cost assumptions, total budget requirement and funding sources, and the impact on the General Fund are set out in the Full Business Case (FBC) at Exempt Appendix A.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 A funding/collaboration agreement with the University of Winchester (UoW) has yet to be concluded in relation to their financial contribution to the capital costs and management of the Sports Stadium. As there is no certainty until the Agreement is signed, the Business Case, which has been prepared, tests a Worst Case (assuming no involvement or contributions from the University of Winchester) and a Best Case scenario (ie a fully integrated facility and with contributions from the University of Winchester) based upon reaching an agreement with the UoW. The Council is working closely with the UoW to try to complete the Agreement and to achieve a fully integrated and managed facility at Bar End.
- 3.2 An agreement has been signed with The Pinder Trust in relation to their financial contribution to the capital costs. Hampshire County Council has allocated their financial contribution to their capital programme and a process has been agreed as to how this money will be transferred to the Council.
- 3.3 The governance process for the new Sport and Leisure Park was agreed in November 2017. This process sets out the terms for the funding partners' ongoing involvement in the project and aligns it with the Council's decision making processes.
- 3.4 The "agreements for leases" from the UoW will need to be agreed prior to, or simultaneously with, the completion of the contract for the construction of the facility and the management contract with the proposed Operator. In addition to this the draft lease to the Operator will also need to be agreed with the UoW (if appropriate) and the Operator prior to the completion of the construction contract and the 'Operator contract'.

4 WORKFORCE IMPLICATIONS

- 4.1 The staffing requirements for the project are continually reviewed to ensure effective and timely delivery. The nature and complexity of the project means that extra resources are being considered, particularly in relation to the legal aspects.
- 4.2 In terms of the staff at both River Park Leisure Centre (which will close when the new centre opens) and the Winchester Sports Stadium if required, they would transfer to any new contractor under the TUPE process. The existing list of staff to transfer was provided to all bidders as part of the leisure management procurement exercise.
- 4.3 A key consideration in relation to this project is the supervisory roles for the construction of the new centre. As agreed by the Cabinet (Leisure Centre) Committee, a site supervisor has been appointed to work directly for the Council in order to ensure that the construction is being carried out in accordance with the design and specification. The Council's Estates team will also have a key role in this process and Stride Treglown/LA architects has

been retained on the client side, as Technical Advisor, working for the Council throughout the construction stages.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The existing River Park Leisure Centre (RPLC) needs to be maintained in good order until such time as a new Sport and Leisure Centre can be delivered and opened. Any delays to the timetable for the delivery of a new Centre may lead to increased maintenance costs. The Council's Estates Team is actively monitoring the condition of RPLC and undertaking any required works in the intervening period.

6 CONSULTATION AND COMMUNICATION

- 6.1 The engagement, listening and learning process to support the development of this project has been extensive and has allowed the project team to capture the aspects of leisure centre operation that are important to key groups and partners.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 One of the key objectives of the project is to deliver an EPC Grade A rating. The project will continue to be assessed against the BREEAM accreditation process.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 The facilities and services provided by the Operator must comply with the legislation relating to the Equality Act 2010. An equalities impact assessment is an ongoing process undertaken as part of the detailed design and engagement work of this project.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 The operator will be required to work with the Council to agree a protocol regarding the sharing of data in line with the EU General Data Protection Regulation and the Data Protection Act 2018. This has been set out in the contract specification.

10 RISK MANAGEMENT

- 10.1 The Project has a separate risk register which is managed by the Project Manager; see Appendix B. This report considers matters linked to risks associated around achieving a satisfactory Business Case.

10.2 Key risks include:

Main Risk	Counter Measures
Construction delays	<ul style="list-style-type: none"> Careful supervision Carrying out early accommodation works Careful programming and monitoring
Start up on new operator	<ul style="list-style-type: none"> Good working relationship and agreed soft landings approach
Construction cost increases	<ul style="list-style-type: none"> Careful supervision Advanced level of detailed design and assessment undertaken 2 stage design and build process
Impact of construction on residents	<ul style="list-style-type: none"> Production of Construction Management Plan Considerate Contractor Scheme Good liaison with residents
Finished scheme does not match design	<ul style="list-style-type: none"> Appointment of NEC site supervisor Retain LA architects and Hoare Lea (mechanical and electrical) as Technical Advisors.

10.3 The main risk consideration of this report relates to achieving a satisfactory Full Business Case. The risks are greater in number and more complex because of the requirement to ensure that there is sufficient income from the facility to deliver a viable proposal whilst delivering a new centre which meets the needs and aspirations of users and sports groups and which is acceptable to local residents and statutory bodies.

10.4 There are also other important risks and impacts related to the lifespan of the existing River Park Leisure Centre (RPLC). These include the ongoing condition assessment and associated costs of required works in order to ensure that it remains safe and functional, along with the cost of heating and lighting an inefficient centre and the resultant environmental impact this has. The longer that the new Sport and Leisure Centre is delayed means that these risks and impacts will increase in terms of cost and reputation.

10.5 The risk around the completion of the Funding/Collaboration Agreement with the University not having been completed has been mitigated by testing a range of scenarios associated with any associated financial payments in the Full Business Case. If, as is hoped, an Agreement is reached, these will only improve the financial position.

11 SUPPORTING INFORMATION:

11.1 Following the approval of the agreed facility mix for the new Sport and Leisure Centre at Cabinet on 13 November 2017, The Sports Consultancy has finalised the financial model for the Full Business Case as set out below and in Exempt Appendix A.

- 11.2 The Full Business Case tests the development of a new Sport and Leisure Centre at Bar End reflecting total capital investment by Partners, as set out in Exempt Appendix A, with the remainder funded by prudential borrowing. The contribution from the University of Winchester is still subject to signing of a formal Funding/Collaboration Agreement. The Base Case model currently therefore assumes that this amount will also need to be funded by Prudential Borrowing. It is hoped that terms for this Agreement can be reached soon. This Agreement will determine two aspects both of which could be agreed independently.
- The management of the Winchester Sports Stadium within the overall Management Contract for the Sport and Leisure Centre operation
 - A capital contribution in return for the use of certain facilities within the new Sport and Leisure Centre on a Wednesday afternoon
- 11.3 If the Full Business Case is approved the Council will be able to confirm the appointment of the preferred bidder for the leisure management contract and the construction contract with Willmott Dixon and progress to the implementation stage. It is important that these agreements are entered into simultaneously.
- 11.4 The Full Business Case has been produced using the HM Treasury “Five Case Model”. The approved format is the Five Case Model, which comprises the following key components:
- The **strategic case** section. This sets out the strategic context and the case for change, together with the supporting investment objectives for the scheme
 - The **economic case** section. This demonstrates that the organisation has selected the choice for investment which best meets the existing and future needs of the service and optimises value for money (VFM)
 - The **commercial case** section. This outlines the content and structure of the proposed deal
 - The **financial case** section. This confirms funding arrangements and affordability and explains any impact on the balance sheet of the organisation
 - The **management case** section. This demonstrates that the scheme is achievable and can be delivered successfully to cost, time and quality.
- 11.5 The purpose of the Full Business Case is to consider the viability of the project against the project objectives based on all the information to date and to determine whether the new Sport and Leisure Centre is financially viable. It builds on the Outline Business Case that was completed in 2017. The Business Case takes account of the allowance of ‘Income Benchmarking’ to offer the appointed Operator a degree of protection against being committed to paying a certain management fee over the life of the contract if factors occur such as economic or legislative impacts which are outside of their

control. It should be emphasised that this benchmarking provision is part of the Sport England template leisure management contract (which is the basis for the contract here) and reflects the current market position. Allowing this within the contract ensured that bidders remained interested in the opportunity and that the Council could achieve the required level of management fee.

The controls in place for this process include:

- The process can only be implemented 5 years into the contract
- The operator cannot call for this process as a result of their net income being down due to poor performance
- It can only be triggered if the operator income is down by an agreed proportion of their profit as part of their bid e.g. 50%
- The operator has an obligation to mitigate any loss or decline in income prior to a benchmarking exercise
- A third party can be appointed if the Council and operator cannot agree to the management fee adjustment
- There is a process of dispute resolution if no agreement can be reached

12 STRATEGIC OBJECTIVES

12.1 The 4 main strategic objectives of this project are as follows:

- **Objective 1:** To provide accessible public sport and leisure facilities to improve the health and happiness of the District's residents.
- **Objective 2:** To increase participation in sport and active recreation.
- **Objective 3:** To improve the quality and energy efficiency of Winchester's main leisure facility.
- **Objective 4:** To provide a Sport and Leisure Centre that is financially sustainable.

12.2 See next section and Appendix A for details on how this project delivers these strategic objectives

13 MEETING THE STRATEGIC OBJECTIVES

13.1 **Objective 1:** To provide accessible public sport and leisure facilities to improve the health and happiness of the District's residents.

Will be delivered through

- A programme of activities to improve the health, fitness and wellbeing of the residents of the district

- A facility that can meet the existing demand and (has the potential to expand) to meet the population growth. An accessible location for the wider District's residents as well as for town residents
- Providing a wider park setting which combines both leisure activity opportunity together with competition sports
- Providing integration with specialist facilities such as the Sports Stadium, the hydrotherapy centre and treatment rooms
- Providing a high standard, fully Sport England compliant facility allowing many different sports and leisure activities to take place
- Allowing for much greater participation in water based activities including learning to swim, training, gaining confidence, hydrotherapy and specialist areas such as triathlon training, many of which can take place at the same time due to the flexibly design water areas and facilities
- To allow for regional swimming events
- Providing a wide range of facilities for those who have disabilities
- Providing a full range of accessible facilities and events for young people linked to school and college activities.

13.2 **Objective 2:** To increase participation in sport and active recreation.

Will be delivered through

- Provision of opportunities for people to reach their full potential in their chosen sport and leisure activity
- Improvement in the wellbeing of the local community through access to high quality sport and leisure facilities and foster partnerships with health organisations to achieve health outcomes
- Provision of a centre of sport excellence encouraging wider participation in many sporting activities
- Provision of a regional centre for water facilities, for sport , leisure and aquatic therapy
- Seeking to maximise the benefits from the existing facilities on the site including athletics and boxing
- Provision of additional capacity for school based activities

Further comment

13.3 The Full Business Case considers all aspects of the proposed development and it is important for the Council to be sure at this critical point in the project that this is the correct investment decision. In recognising that the Garrison Ground and King George V playing fields at Bar End already provides for sport and leisure use, the Council is considering the use of this space as a whole through a Design Framework. The new Sport and Leisure Centre forms part of the longer term vision for a Winchester Sport and Leisure Park.

13.4 Partnership working is essential to the delivery of this bold and ambitious development. The University of Winchester (UoW) subject to the agreement

of terms has indicated that they will make a capital investment into the project. The University of Winchester own and manage the adjacent Sports Stadium and are reviewing options as to whether the management of the Stadium will pass to the Operator of the new Leisure Centre or be provided by another route. In return for their capital investment the University would receive access to the sports hall, squash courts and the pool at the new Sport and Leisure Centre and on Wednesday afternoons for University sports fixtures and student usage. The Pinder Trust and Hampshire County Council are making significant capital contributions, which have been confirmed, towards the delivery of the leisure centre.

- 13.5 Extensive engagement has taken place with local clubs and residents who will benefit from this new major public sport and leisure facility in Winchester which firmly supports the Council Strategy objective to promote health and happiness and other aspirations in relation to being a Lower Carbon Council.
- 13.6 The unique aspects of the Winchester Sport and Leisure Park Project focus around the provision of a modern leisure facility with a 50m pool, which maximises the flexibility of water space for different water leisure uses and creates a facility for future use. This focus on water differentiates this facility from other centres in the area. An integrated hydrotherapy facility adds a special element to the centre enabling a range of therapeutic services to be offered in this community facility.
- 13.7 This facility is coupled with the University of Winchester Sports Stadium and sits alongside open space and existing playing pitches. This combination of a modern centre in a Sport and Leisure Park setting provides for a compelling blend of facilities for residents of the district for both leisure and more competitive sporting activities.
- 13.8 **Objective 3:** To improve the quality and energy efficiency of Winchester's main leisure facility.

Will be delivered through

- A building with an EPC Grade A rating and BREEAM assessment
- Assessing the scheme against the BREEAM accreditation system

Further comment

- 13.9 This is a key consideration and is integral to the design work. Setting this object at the start of the project has allowed this to be designed in from the outset. The appointed mechanical and electrical specialists along with the BREEAM consultant have been set the challenge of meeting these objects, led by the lead designer, and within the context of an affordable budget.

13.10 **Objective 4:** To provide a Sport and Leisure Centre that is financially sustainable.

Will be delivered through

- The centre is affordable and self-financing over the life of the asset

Further comment

13.11 Leading up to the approval of the facility mix in November a great deal of assessment and technical work was undertaken to bring forward a facility mix which:

- I. Supports the project objectives
- II. Meets assessed demand
- III. Reflects Sport England and Governing Bodies guidance
- IV. Provides a good balance of community and sporting facilities and which delivers a projected amount of income to support the ongoing costs of running and delivering the new centre.

13.12 Based on the facility mix agreed on 13 November 2017, the capital costs of the proposed new leisure centre are set out in Exempt Appendix A, reflecting contributions from Partners organisations, leaving the remainder to be funded by the Council. It is proposed that £1.8m million is funded by Community Infrastructure Levy (CIL) and the remainder through prudential borrowing. Borrowing costs have been taken into account in the financial appraisal.

13.13 The Financial Case concludes that building a new Sport and Leisure Centre on a like-for-like basis will result in a net financial surplus as set out in Exempt Appendix A over the 40 year life of the leisure centre and results in a better financial position than trying to keep the existing leisure centre operational for a further 40 years.

13.14 Due to the timing difference in incurring initial financing costs and receiving increasing income from the operator, there will be a negative impact on the General Fund until an estimated annual surplus position is reached in 2030/31 with the most significant deficits from 2020/21 to 2022/23. It will be necessary therefore to cover this deficit by using earmarked General Fund reserves; once a surplus position is reached, the Council can then elect to begin to replenish those reserves or increase spend on service expenditure elsewhere.

13.15 The Council collects contributions from developers through Community Infrastructure Levy (CIL) and the amounts due are calculated using the Council's approved charging schedule. The protocol for allocating CIL funds was agreed by Cabinet in June 2016 (CAB2807) and includes the development of a rolling 3 year programme of schemes (CAB2962 September 2017 refers).

13.16 Cabinet has agreed in principle to date to allocate £1m of CIL funding towards the proposed Leisure Centre. An update report on CIL is due to be considered by Cabinet in February and will include this provision.

14 PARTNER FUNDING

14.1 University of Winchester

14.2 The University of Winchester (UoW) is a partner and subject to the agreement of terms intend to make a capital investment into the project and place their Sports Stadium into the partnership.

14.3 In return for their investment the University will receive some free usage at certain times of the week.

14.4 Pinder Trust

14.5 The Pinder Trust is a key partner investing £1.2 million into the delivery of a hydrotherapy pool to allow access for treatment. The Pinder Trust is a grant giving charity established by the late Margaret Pinder and is devoted to supporting provision for hydrotherapy and physiotherapy to patients with long term health conditions.

14.6 The Pinder Trust has appointed a clinical physiotherapist, specialising in aquatic therapy, to help inform the design of the hydrotherapy suite. The Sports Consultancy has worked with local aquatic therapists to develop a financial appraisal of the hydrotherapy suite. The Pinder Trust and their consultant will also help to inform the specification for the management operator.

14.7 The funding agreement has been signed with The Pinder Trust. The Pinder Trust is also actively fund raising in order to further help support the project.

14.8 Hampshire County Council

14.9 The County Council has various land interests on the wider site and negotiations are underway to establish whether the County Council wish to include any land in the development of the Sport and Leisure Park. These negotiations will continue and are not time critical to decisions required in this paper.

14.10 The County Council have committed a capital investment in the project of £1 million.

15 GOVERNANCE ARRANGEMENTS

- 15.1 In order to deliver the project a core project team is in place to manage the project under the leadership of the Head of Programme who reports to the Director of Place as project sponsor and portfolio holder for Health and Wellbeing. The Cabinet (Leisure Centre) Committee has been established to help guide the project and to make key decisions.
- 15.2 The Governance Structure that was agreed by Cabinet in November 2017 will allow the Council, and its Partners to work together to deliver and manage a new Sport and Leisure Centre.
- 15.3 These governance arrangements and agreements propose that a Leisure Centre Advisory Board is established. Once the centre is operational the Board will have day to day oversight of the contract and will give their advice and make their recommendations to the Cabinet (Leisure Centre) Committee for determination of required actions.

16 GATEWAYS

- 16.1 The Business Case Gateways for this project are set out in the table below.

Gateway	RIBA Stage	Evidence required (what will we know)
1. Strategic Outline Case	End of RIBA Stage 1	In September 2015 Cabinet was provided with a financial assessment of shortlisted options. At this stage Cabinet decided the preferred option, if feasible was to build at Bar End.
2: Outline Business Case (Q4 2017)	End of RIBA Stage 2	Estimated capital costs (CAPEX) Operating income estimate <i>(both based on Concept Design)</i>
3: Full Business Case (Q1 2019)	End of RIBA Stage 4	Generated capital costs (CAPEX) Operating income <i>(both obtained by a procurement process)</i>

17 OTHER OPTIONS CONSIDERED AND REJECTED

- 17.1 The Council could chose not to adopt the Full Business Case. Any delay would have significant cost implications. Should the Council not proceed with the Full Business Case then it is unlikely that the project can continue on the agreed timeline.
- 17.2 The Sport and Leisure Centre project is at an important decision stage. The facility mix has been agreed and shown as viable within the Full Business Case. It is for Cabinet to consider whether to progress with this project at this time.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3081 (LC) – 14th January 2019 – Operator Procurement

CAB3076 (LC) – 18th September 2018 – Project Update and Budget

CAB3068 (LC) – 25 July 2018 – Winchester Sport and Leisure Park – planning application consultation

CAB3067 (LC) – 25 July 2018 – Winchester Sport and Leisure Park – sports club and national governing bodies of sport - engagement

CAB3066 (LC) – 25 July 2018 – Winchester Sport and Leisure Park – response to notice of motion

CAB3031 – 6 June 2018 – Winchester Sport and Leisure Centre Operator Procurement

CAB3035(LC) – 23 May 2018 – Approval of Design Framework

CAB3030(LC) - 26 March 2018 - Winchester Sport and Leisure Park Project Update

CAB2983(LC) – 16 January 2018 – Outline Business Case and associated Governance

Other Background Documents:-

None

APPENDICES:

- Exempt Appendix A – Full Business Case
- Appendix B - Risk Matrix

Other Background Documents: None