Report of the Strategic Director of Place to the meeting of Regeneration and Economy Overview and Scrutiny Committee to be held on 25 July 2017

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Subject:

Sports Facilities Investment Plan

Summary statement:

Following previous reports to the Regeneration and Economy Overview and Scrutiny Committee on the 4th March 2015 this report provides Members with an update on progress made to date and sets out steps for the next stages of the project.

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1. SUMMARY

Following previous reports to the Regeneration and Economy Overview and Scrutiny Committee on the 4th March 2015 this report provides Members with an update on progress made to date and sets out steps for the next stages of the project.

2. BACKGROUND

2.1 At the meeting of the Regeneration and Economy Overview and Scrutiny Committee to be held on 4th March 2015 it was resolved that:

> The Committee expresses its concerns to the Executive regarding several elements of the Sports Facilities Investment Plan; namely heavy borrowing, ambitious usage projections and the long term sustainability of the Plan.

2.2 There have been significant changes to the original project brought to Regeneration and Economy Overview and Scrutiny Committee held on 4th March 2015. The committee should note that at the meeting of the Executive of 10th January 2017, in respect of the Sports Facilities Investment Plan it was resolved that:

- The work undertaken on behalf of the Council is noted.
- The Council continues to develop the Sedbergh Sports Facility allowing the subsequent disposal of the Richard Dunn Sports Centre site.
- The Council ceases to develop the City Centre Sports Facility and will not take forward the South West Pool at Clayton Heights planned for phase 2 of the Sports Facilities Investment Programme.
- That the Council brings forward the development of a new community Swimming Pool and Sports Facility in the North of Bradford City with immediate effect, allowing for Bingley Pool to be offered for community management and if a solution can not be found the pool will close.
- The Council agrees that when the new pool at Sedbergh opens, Queensbury Pool will be offered for community management and if no solution can be found the pool will close.
- The capital requirement for £28.1m and the revenue budget consequences of proceeding with the scheme are reflected in the recommendations to the Council Budget for future financial years.
- The Council continues with the plan to forward fund the new facilities from the Capital Investment Plan prior to the closure and disposal of the Richard Dunn site.

3.0 PROJECT PROGRESS

3.1 Work to date

- Summer 2014 Land at Britannia Mills was purchased by the Council.
- Summer 2014 Public Consultation carried out
- October 2014 Deloitte Feasibility Study presented to Council
- January 2015 Executive approval for the Sports Facilities Investment Plan.
- September 2015 Land at Britannia Mills vacated.
- November 2015 Design team appointed (Local firms, Rex Procter and Partners, Darnton B3 Architects and Furness Partnership Engineers)
- February 2016 Demolition of Mill Commences.
- April 2016 RIBA Stage 1 report presented to Council
- June 2016 Demolition of Britannia Mills completed.
- August 2016 RIBA Stage 2 (Concept Design) report presented
- August 2016 Work on City Centre Sports Facility project halted
- October 2016 RIBA Stage 3 (Detailed Design) report presented
- November 2016 Change of scope for Investment Programme announced
- January 2017 Change of scope approved by Executive
- January 2017 Pre Planning Consultation held at Sedbergh Community Community Centre
- January 2017 Planning Application Submission

3.2 Designs for the Sedbergh Sports Facility are appendix 1

3.3 Once this more detailed design work had been completed work was undertaken to produce detailed revenue and operating projections for the new facility at Sedbergh.

The Sports Consultancy have examined the planned new development and have projected an improved performance for the Sedbergh site over the figures provided for the 2014 feasibility study.

The revised revenue projections for Sedbergh show a marginal increase in staffing and other costs. The increased costs are offset by an improved income performance.

3.4 The detailed revenue and attendance projections for Sedbergh are appendix 2. The projections show an increase in attendances and increase in fitness gym and membership based on an improved and expanded gym. It is assumed that current members of the Richard Dunn Sports Centre gym will transfer to the new facility. The potential increase in fitness membership and participation will have a positive impact on physical activity levels and health. The addition of a second flexible water space will provide significant opportunities for increased learn to swim activity.

3.5 Planning Permission for the project at Sedbergh has been obtained, and as the next step in the development process the Council has commenced the process of appointing a main contractor. The estimated value of this contract is £15.2 million.

3.6 It is a requirement of Contract Standing Orders that the appropriate committee is notified of the Council’s intent to award a contract in excess of £2million in value.

3.7 The project team in association with the Commissioning and Procurement Service supported by our external design team are currently undertaking a competitive process through the regional YORBuild framework. This framework not only provides an expedient route to market but has already undertaken due diligence on the companies background. Companies on the framework are also required to demonstrate a commitment to developing the local supply chain, encouraging sustainability and promoting employment and skills by way of training and apprenticeships.

4. FINANCIAL & RESOURCE APPRAISAL

4.1 The appraisal of this scheme comprises two financial tests:

- Are the proposed new facilities better financially than the existing ones? In this test, we compare the total costs and revenues over time of new versus existing.

- Are the proposed new facilities affordable given the Council's financial context? In this test, we ask the question whether, even if we take the comparatively more attractive financial route, we have enough budget to pay for it.

For both these tests

- We have to make assumptions about the future, based on best available estimates. These assumptions have also been informed by the original Deloitte report, and current financial performance of the existing facilities. The material assumptions that have been made in the "base case" are shown at Appendix 3 Section 1.

- We then vary those assumptions, to see what happens to the financial conclusions. This sensitivity analysis allows us to compare potential variations to the "base case", which allows conclusions to made about the degree and longevity of risk.

4.2 Are the proposed new facilities better financially?
The total forecast cashflows of the new facilities and the existing facilities have been compared over 25 years, to reflect the expected life of the new facilities. In order to make the comparison fair, we have assumed that the new facilities require annual life-cycle maintenance, and that the existing facilities first require backlog maintenance to be carried out, followed by annual life cycle maintenance.
The table below summarises the comparison of the real and discounted cashflows so that the difference can be measured in financial terms. The discounted cashflow works on the principal that £1 now will be worth 42p in 25 years so that inflation can be incorporated.

Table 1: Comparison of cashflows of new and existing facilities over 25 years

	New Facilities £m	Existing In-Scope Facilities £m	Benefit of New Facilities £m
Net cashflow in real terms – (cost)/surplus	(20.6)	(49.8)	29.2
Net cashflow discounted – (cost)/surplus	(18.2)	(32.2)	14.0

Using the analysis in the base case, we draw the following main conclusions. The existing facilities:

- Will lose money each year. As table 1 shows, we forecast that the cost of the existing facilities will total £49.8m over the 25 years. Closing them down and replacing them avoids the losses they are expected to make.
- Will require significant capital spend on accrued backlog maintenance costs and ongoing maintenance costs to keep them open, which will not be rewarded by an improved annual financial result. The forecast assumes that income gradually falls over time, despite expenditure on backlog maintenance (£7.4m) and lifecycle costs (£12.6m) totalling £20m over a 25 year period. Closing them down avoids those maintenance costs.

The new facilities:

- Will cost £28.1m to build. We will fund the build costs by a combination of borrowing; using capital receipts from disposing of the existing facilities; and using grants, if available.

- Will require on-going lifecycle costs of £5.7m over a 25 year period.

- Will make an operating surplus but will lose money each year, taking into account all the operating, maintenance and capital financing costs. However, they will run at a much lower loss than the existing facilities.

This means that, comparatively, the new facilities offer a better financial prospect than the current facilities. In today's money, we estimate that new facilities provide a total of £14.0m more financial value over 25 years.

Given the uncertainty related to any forecast over 25 years, we have also considered the comparative financial advantage offered over the first five and ten years.

Table 2: Comparison of cashflows of new and existing in scope facilities (in real terms)

	5 years £m	10 years £m	25 years † £m
Costs of new facilities	4.3	8.6	20.6
Costs of existing facilities	8.0	16.9	49.8
Variance	3.7	8.3	29.2

† from Table 1 (and includes dual running costs)

A further breakdown of the figures in Table 2 is included in the Appendix 3 Section 2.

Table 2 demonstrates that there is a financial advantage in replacing the existing facilities over 5, 10, and 25 years.

However, there are significant caveats to these conclusions.

Clearly, there is a high level of uncertainty about the realism of extending the operating life of the existing facilities, given their age.

Tables 3a and 3b below shows what happens to the comparative financial value if the assumptions in our base case analysis do not hold good.

Table 3a: Income sensitivities that result in zero financial advantage of building the new facilities

Income	Existing In Scope facilities in 2015/16	New facilities – base case	Zero financial advantage of building new facilities	% reduction from the base case
Average income per visit	£2.92	£3.10	£2.39	23.0%
Average No of visits annually	0.48m	0.72m	0.55m	23.0%

Table 3b: Capital sensitivities that result in zero financial advantage of building the new facilities

	New facilities base case	Zero financial advantage of building new facilities	% increase in capital costs
Increase in capital construction costs	£28.1m	£45m	60%
Increase in interest rates	3.50%	17.00%	

Additional sensitivities are included in Appendix 3 Section 3 on capital.

4.3 Are the proposed new facilities affordable?

While the comparison between “old” versus “new” shows a financial advantage over 25 years of proceeding with the project, we also need to assess whether a scheme is affordable.

In the context of the expected continued squeeze on funding for Councils, this test is crucial for any scheme which will run at a net cost, albeit it considerably lower than the current facilities.

In running the test, we have compared the net costs of the proposed scheme against the current base budgets of 2015-16.

Table 5 below summarises the 25 year average annual cost of the new facilities, compared with the existing budget provision.

Table 4: 25 year average annual cost of new facilities

	Average - 25 years
Per year budget requirement of new facilities	£0.69m
Existing per year base budget	£1.21m
Per year budget surplus	£0.52m

† Existing base budget includes £415k to fund the allocated Capital Investment

By comparison, the Table 5 shows the same for the existing facilities.

Table 5: 25 year average annual cost of existing facilities

	Average over 25 years
Budget requirement of existing facilities †	£1.83m
Existing per year base budget	£1.21m
Per year budget shortfall	£0.62m

†Assuming backlog maintenance is addressed and on-going lifecycle costs are incurred.

Table 6 below shows the assumptions in the base case about visitor number compared to current levels. This comparison suggests that in addition to the assumed 10% increase in average income per visitor outlined in table 3a, there would also have to be an increase in the usage of all pools and dry facilities by the people of Bradford to make these investments affordable. The Sports Consultancy future revenue projections on the new facilities are based on benchmarks from their operational database which contains over 1000 records of financial performance from over 350 leisure facilities in the UK.

Table 6: Throughput of facilities

	Number of visits per annum
All existing facilities	1.84m
Current in scope existing facilities	0.48m
New facilities	0.72m
New facilities plus remaining sites	2.07m
Increase in number of visit to all sites required	0.23m
% increase in number of visits from existing all facilities	12%

A material factor in the context of the Council's financial outlook is the amount of budget that the Council can afford to set aside for this scheme. The latest Council budget papers forecast that savings of over £100m will have to be found over the next four years.

Proceeding with the scheme as proposed therefore has the following consequences:

- first, once the new facilities are completed, their net cost becomes essentially "fixed" within the Council's net budget.

- Any deterioration in the financial performance of the facilities will have to be borne by the rest of the Council's services, or by additional Council Tax.

- Overall financial performance is heavily dependent on income levels, which are difficult to control; and 55% of total revenue costs are largely fixed as they relate to premises and capital financing expenditure (94% if staffing costs were included which could be considered fixed as minimum staffing levels are required for Health and Safety reasons).

On affordability, then, we draw the following conclusion:

- new facilities in the longer term provide a better prospect of reducing the strain on the revenue budget. However, they will require a total revenue budget of £8.6m (see table 2) in the next ten years.

4.4 Overall Conclusions

The financial analysis supports the conclusion that:

- Maintaining the existing facilities provides poor value, with expected further deterioration in their financial performance meaning they fast become unaffordable;
- The base case analysis shows that there is a comparative advantage in undertaking the scheme;

- The affordability test of proceeding with the whole scheme shows that:
  - The new facilities will require a budget of £8.6m over the next ten years.;
  - There are consequences for the rest of the Council's services of committing to the long-term cost commitment of the new facilities.
- The viability of the scheme is dependent on the control of capital costs, inflation index, the quantum of capital receipts, and the contingency funds available.
- Likewise, the operational performance of the new facilities is the key to overall financial advantage. Income levels are a dominant factor, and can be difficult to control.
- There is a risk that, should the projections about visitor numbers and their spending habits turn out to be over-optimistic, the Council replaces its current loss-making facilities with new loss-making facilities which places further pressures on the already constrained net revenue budget;

5. LEGAL APPRAISAL

Legal services will continue to provide advice and assistance on any legal implications to help with delivery of the investment plan.

6. OTHER IMPLICATIONS

6.1 EQUALITY & DIVERSITY

There are no direct equality implications arising from this report.

6.2 SUSTAINABILITY IMPLICATIONS

There are no sustainability implications arising from this report.

6.3 GREENHOUSE GAS EMISSIONS IMPACTS

Significant reductions in carbon emissions will be achieved by closing inefficient and energy hungry buildings and replacing them with modern buildings designed with sustainable building principles and practices.

7. NOT FOR PUBLICATION DOCUMENTS

Appendices 2 and 3 are Not for Publication and are exempt from disclosure in accordance with paragraph 3 of schedule 12a (financial or business affairs) of the Local Government Act 1972. It is considered that in all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information

8. RECOMMENDATIONS

- That the detailed revenue projections for the first phase of the new facilities are noted by the Regeneration and Economy Overview and Scrutiny Committee.

- That the Regeneration and Economy Overview and Scrutiny Committee note the progress made on the development of the new sports facilities.

9. APPENDICES

Appendix 1 Sedbergh Design outline
Appendix 2 Sedbergh Business Planning (Not for Publication see paragraph 7 above)
Appendix 3 Supporting Financial Information (Not for publicationsee paragraph 7 above)

10. BACKGROUND DOCUMENTS

Report to Executive 10th January 2017