

TRAFFORD COUNCIL

Report to: Executive
Date: 29 October 2018
Report for: Decision
Report of: Executive Member for Communities and Housing

Report Title:

Leisure Centre Investment Strategy

Summary:

The report sets out the case for investment totalling £46.843m through a mix of capital funding including prudential borrowing to bring forward new build leisure centres in Altrincham and Stretford; the proposed next steps for Sale Leisure Centre; and the timescales and immediate actions related to George H Carnall Leisure Centre.

It sets out the level of revenue support required to meet the cost of prudential borrowing and how this cost will be met through growth in usage detailed in the financial projections set out by Trafford Leisure in the Part II report.

The investment forms part of a borough wide strategy to increase levels of physical activity and help to secure improved health and wellbeing outcomes for Trafford residents by increasing the overall level of physical activity.

The proposals follow on from the report approved by Executive in 2016 which identified an investment requirement of £24m, based on a programme of refurbishment plus one proposed new build. The current proposals include provision for three new builds and a much enhanced scheme for Urmston already approved by the Executive and subject to a current live planning application.

Whilst the level of capital investment has increased the proposals show a significantly greater return on this investment from increased usage than that originally proposed. This means that the net effect of the prudential borrowing required to support the proposals would not have a material impact on the revenue requirements of the Council by creating a new budget pressure.

The full Trafford Leisure Company financial forecast, as approved by the Board of Directors is included as appendices to the Part 2 report with a short summary in the main body of the report.

The leisure company has already achieved a significantly improved trading position since it became a wholly owned company in the Council's ownership and it is now operating effectively without any Council subsidy.

Recommendation(s):

That the Executive;

- 1) Approves the Leisure Centre Investment Strategy as set out in the report including the capital investment of £46.843m in the development of new leisure centres at Stretford and Altrincham and the associated prudential borrowing requirements of £34.698m.
- 2) Approves the release of £2.180m from within the overall capital sum to develop the proposals to planning application stage.
- 3) Approves the proposed procurement process to secure design and build contracts for Altrincham and Stretford Leisure Centres as set out in this report and notes that further reports on the award of the contracts will be brought back to the Executive in due course.
- 4) Delegates authority to the Corporate Director of Place in consultation with the Corporate Director for Governance and Community Strategy to negotiate and agree the terms of agreements with Trafford Leisure CIC Limited in relation to the use and operation of the proposed new facilities and to secure income payments to cover the Council's cost of borrowing and future lifecycle costs.
- 5) Delegates authority to the Corporate Director for Governance and Community Strategy to enter into and sign the said agreements on behalf of the Council.
- 6) Notes that a further report setting out the business case for capital funding related to the development of Sale Leisure Centre will be brought to the Executive in due course.
- 7) Notes the position in relation to George H Carnall (GHC) Leisure Centre and that a further report will be brought back to the Executive in December 2018 setting out proposals prior to public consultation on the same

Contact person for access to background papers and further information:

Name: Richard Roe
Corporate Director, Place

Extension: 0161 912 4265

Background Papers: None

1 Background

- 1.1 Following on from an extensive review of leisure provision, current and anticipated areas of demand and commercial opportunities within the leisure market a report was submitted to Executive in 2016 recommending an investment strategy for the development of Council owned leisure centres.
- 1.2 The report set out a case for investing capital to improve and modernise four leisure centres. It was predicated on increasing the usage of leisure centres with consolidation of facilities in the Urmston locality in order to generate sufficient new income to meet the revenue borrowing costs over a reasonable period of time.
- 1.3 The Strategy was set within the context of ever increasing cost pressures on the health and social care system and the absolute imperative to secure improved health and wellbeing outcomes through a strategy of increasing the level of physical activity across communities in Trafford but most importantly closing the significant gap in health outcomes in Stretford and Old Trafford.
- 1.4 In 2016 the Executive approved £24.39m of capital investment which included refurbishments of Urmston, Stretford and Sale leisure centres and a new build leisure centre in Altrincham.
- 1.5 The approval was an in principle one based upon developing detailed business cases, covering design, facility mix, capital requirements and revenue contribution through Trafford Leisure Community Interest Company (“Trafford Leisure”) for each centre based on the new improvements and facilities mix.
- 1.6 A detailed Commercial Prospectus was produced which was commissioned through independent sector experts Max Associates. This was provided as a Part B item to support the 2016 report to the Executive.
- 1.7 The Prospectus focused on current condition, facility mix to attract a wider market sector including more young people, latent demand and the overall local market thereby assessing the nature of supply and demand, business modelling and investment requirements.
- 1.8 The report was supported and adopted by the Board of Directors at Trafford Leisure in advance of Executive approving the strategy and releasing a sum of £250k to bring forward detailed business cases.
- 1.9 Since the report was approved, a design and cost management team has been appointed to work alongside the Council’s team and Trafford Leisure’s management team and Directors on the four main centres to develop these proposals.
- 1.10 A business case was brought forward for Urmston as the first phase of the development. This was approved and is currently subject to planning approval which, if approved, would lead to the commencement of works in January 2019.

The business case was predicated on the consolidation of the two leisure centres in the Urmston area that sit within a mile of each other and which are essentially competing with each other. The business case that covers the prudential borrowing requirements is dependent upon this consolidation with circa £400k of revenue derived from the George H Carnall (GHC) customer base transferring across to Urmston. This also creates an opportunity to work with the community to look at the current GHC site and its development potential in the future. In any event it will remain open until the remodelled Urmston is completed, which is anticipated to be January/February 2020 subject to a successful planning application.

- 1.11 It should also be noted that the current condition of the leisure centres is extremely poor. This creates several issues that have both financial and reputational implications;
- a) It was stated in the 2016 report that £10m was required to maintain the leisure centre estate and ensure compliance with health and safety legislation. This was a cost estimate based on the latest surveys available which had been carried out in 2011. They excluded fees and other site related costs required to undertake the work and the costs have considerably increased with inflation. The centres would now require ongoing lifecycle funds to maintain them to a basic level of health and safety that would be in the region of £20m.
 - b) To spend this amount of money on the existing facilities would not have any visible impact from the customer's perspective and therefore generate no additional income on which to recover the investment. Altrincham Leisure Centre is also at the end of the building's economical life and this is now starting to impact on usage.
 - c) The conditions of each building have a detrimental impact on customer perception and it is becoming increasingly difficult to retain members and grow new membership especially given the local market context in Trafford, particularly the fitness market. Ultimately the viability of the Leisure Company is being jeopardised and it will reach a point where it is not a viable company.
 - d) Leisure centre staff also spends a disproportionate amount of time on building related issues which diverts them away from their prime purpose of increasing physical activity levels and creates higher operational running costs at each centre.

2 Detailed development planning

- 2.1 The original investment proposals were based upon one new build leisure centre in Altrincham and the refurbishment of Sale, Stretford and Urmston. Due to specific circumstances at each centre and their locality, the overall proposals are now based upon three new builds with Urmston being developed more extensively than originally proposed.

- 2.2 This means that the original capital estimate is no longer sufficient to meet the requirements at each site for a number of reasons set out as follows:
- 2.3 The proposals for the new Altrincham Leisure Centre would have seen the new building developed within the site covered by the development agreement for Altair. The developer's initial cost estimates of £10m to build a new facility which would then be leased back to the Council have proved to be understated. As plans developed following approval in 2016 it became evident that it was not possible to build a suitable leisure centre to the specification required and the costs escalated to over £17m plus associated other costs. The Council determined with the developer to remove the new leisure centre from the development agreement so that the Council could develop the centre itself.
- 2.4 The health inequality gap is at its most stark in Old Trafford and Stretford. The opportunity to create a Masterplan to improve the Civic Quarter around the Town Hall and Lancashire County Cricket Ground along with the emergence of UA92, were both unknown factors when the original report was submitted. The option therefore of relocating the leisure centre has emerged as a more cost effective option that will have a bigger impact on addressing the health inequalities in the locality. A new build leisure centre serving the local communities of Stretford and Old Trafford is now proposed and in part the sale of the existing capital asset of the current site provides a financial benefit to this scheme.
- 2.5 Further feasibility studies need to be undertaken regarding Sale Leisure Centre. Originally proposed as a refurbishment, subsequent detailed surveys show significant structural issues with the main club pool and further technical surveys are needed to fully assess the risks associated with the condition of the main pool. The building's facilities are also spread out over four floors. This means that it would require much more significant work to refurbish the centre and it would carry significant risk of finding further structural, mechanical and electrical issues, meaning cost certainty would be difficult to achieve prior to works commencing on site. For these reasons, alternative sites for a new build have been explored in the local vicinity which has proved fruitless. At this point in time the likely most viable option would be to build a new leisure centre on the existing site with the potential to fit a residential development alongside a new leisure centre to help fund the scheme.
- 2.6 Consideration is being given to this option including the ability to maintain the pool and gym during the build period as a phased approach to maintain facilities in the locality. The phasing of this scheme with the other developments is a critical consideration with the likelihood that the build phase for Sale would only start on completion of Stretford and Altrincham. This would provide existing members with new and enhanced facilities at Stretford, Altrincham and Urmston all accessible through their membership so as to minimise the impact on residents of a partial or possible full closure of Sale whilst construction takes place.
- 2.7 The overall costs of these changes to the investment strategy increase significantly the capital requirements, so that, these stand at £45.2m for

Stretford and Altrincham. It is important though to note that these proposals, together with Urmston and Sale add significantly to the potential growth in usage and resultant income with the aim being that the revenue costs of prudential borrowing are met from the additional income.

3 Methodology – Altrincham and Stretford leisure centres

3.1 A cost modelling approach was developed to facilitate the provision of a clear brief for the development of a design, cost plan and business plan to:

- Inform leisure services business decisions
- Establish ‘affordability criteria’ from the earliest concept stages of design.
- Enable a common understanding of the cost of each of the functional areas.
- Provide the specification and finishes included in the cost model.
- Afford visibility of all areas of capital cost i.e. nett construction, prelims, overheads and profit, risk and contingency and professional fees.

3.2 The ‘standard model’ includes for 4,510 sq. m of built area, plus 300 no. space car parking with appropriate allowances for hard/soft landscaping, drainage and incoming services as detailed below.

Construction			On Costs		
Substructure	£	267.00	Prelims	10%	£ 1,063,458
Superstructure	£	945.00	OH&P	6%	£ 638,074
Finishes	£	239.00	DD Risk	2.5%	£ 265,865
FF&E	£	130.00	Construction Risk	1%	£ 106,345
Services	£	777.00	Fees	12.4%	£ 1,318,050
Total	£	2,358.00 /m2	Total	32%	£ 3,391,792
Standard Model		4510 /m2			
Nett Construction Cost/Standard Model	£	10,634,580			
					Gross Capex £ 14,026,372
					Employers Risk/Contingency Allowance 5% £ 701,350
					*Development Cost Standard Model £ 14,727,722
*Excludes:					
: S106/278/CIL Allowances					
: Decant Allowances					
: Loose FF&E e.g. Sports Equipment					
: VAT					

3.3 Trafford Leisure also built a commercial evaluation model on a modular basis to assess the business case and profit capability of the base model and the additions to scope requirements for each locality. This demonstrated significant commercial benefits which would help in supporting borrowing costs.

3.4 Using a ‘design to cost’ approach and the business modelling tool, an enhanced scope was assessed for each area based on the principle of trying to achieve a net zero impact on the Council’s revenue budget.

- 3.5 This led to a facility mix for Stretford and Altrincham starting from the base requirements for a community leisure centre enhanced by commercial activities that helped to subsidise the base model and attract new audiences into the leisure centre to have greater impact on health inequalities.
- 3.6 There were also factors included specific to the locality, for example there are demolition costs for Altrincham as well as a phased build requirement to retain the pools whilst the new centre is being built whereas this is not necessary for Stretford as the new build would be on a brown field site.
- 3.7 Allowances were also made for adequate car parking at each centre, 300 spaces at each site.
- 3.8 An allowance for inflation has been projected to likely build date and is also included within these cost projections.
- 3.9 This approach also allowed us to test the nationally set specification recommended by Sport England. This identified additional costs to build and operate the new facilities over that of the Trafford specification. There is ongoing dialogue with regard to this with Sport England. This will be explored in the detailed design stage but the overall objective is to set a mutually beneficial scope that ultimately means a more cost-effective build for the Council without jeopardising the commercial return that's required to meet the borrowing costs.
- 3.10 This left us with a clear facility mix brief for our design team who have produced concept designs for Altrincham and Stretford which has been optimised by a further 15% reduction in the Gross Internal Floor Area (GIFA) as part of the refinement process and required facility mix.
- 3.11 The business modelling was then applied to the space and facility mix allocation which has informed the investment approach detailed in section 4 of this report.

4 Investment requirements and approach

4.1 Stretford Leisure Centre

Proposals for the final siting of the leisure centre will be dependent upon the results of the Civic Quarter Master Plan consultation however approval is sought for the overall capital expenditure. The exact location will be confirmed when the masterplan proposals are submitted for approval by the Executive, expected to be February 2019. It is assumed that there will be no additional land costs as these have already been covered as part of the civic masterplan land assembly arrangements. It is designed and firmly positioned as community leisure centre predominantly serving residents in the Stretford and Old Trafford areas but also of sufficient capacity to meet the needs of an expanding student population at UA92.

- 4.1.1 The facility mix includes a 25m pool and 18m leisure pool with moveable floor. A 160 station fitness suite some 3 times bigger than the existing

one with a health and wellbeing suite and assessment room to help people get the most from their fitness regimes. Overall there will be 9 court sports hall capacity with flexibility as an indoor cricket practice area to professional standard which attracts funding from the ECB and provides a route for local people to access world class practice facilities alongside the elite cricketers. This would combine with a number of fun activity based facilities aimed at the family market along with a social meeting point and café area offering wholesome, healthy food and party catering.

- 4.1.2 The total construction cost including overheads, inflation and car parking for 300 cars is £24.460m.

4.2 Altrincham Leisure Centre

- 4.2.1 Proposals for Altrincham seek to maximise the potential of the location adjacent to the Town Centre and the residential and commercial developments on the Altair site. Altrincham was an extremely busy leisure centre but is in a very poor state of repair and is now suffering from reducing customer numbers. The site gradient is also quite challenging as the existing leisure centre is built on different levels and presents some design challenges within that space.
- 4.2.2 It is also important to maintain an operational pool whilst the new centre is being built which subsequently attracts a premium in the demolition and build cost. However during a build period of 18 months, having no facilities in this area would have significant impact on existing members and upon the finances of the leisure company. The new concept and positioning of the new pool affords swimming to be delivered throughout the construction phase.
- 4.2.3 The facility mix includes a 25m pool and 25m leisure pool with moveable floor. A 100 station fitness suite, twice the size of the existing facility with a wellness facility along with a 6 court sports hall with flexible space and incorporating a purpose built Gymnastics and Trampoline hub, squash courts and party rooms. There will be focal point for leisure centre users in the café area with a party offering. Proposals are mindful of the wider development and retail offer that is likely to exist through the wider Altair development and town centre.
- 4.2.4 The total construction cost including overheads, inflation and car parking for 300 cars is £22.383m.

4.3 Building Life Cycle Costs (Sinking Fund)

- 4.3.1 The Council does not currently set aside funds for life cycle costs. Instead it has to make provision within the annual capital budget allocation each year to maintain the centres. These proposals seek to secure a life cycle fund to maintain the centres in good condition throughout their estimated life.

- 4.3.2 The key principle underpinning these proposals is to negate the revenue cost of prudential borrowing and building life cycle costs so there is no impact on the Council's future revenue and capital budgets. This would be achieved by income growth and trading surpluses made possible by having a modern fit for purpose facility, with new facilities with lower operating overheads.
- 4.3.3 It should also be noted that this growth in usage will also create new, local employment opportunities within the leisure company.

5 Trafford Leisure Business Plan

- 5.1 The condition of each building is having a serious detrimental impact on the customer experience and the Trafford Leisure business plan. Customer behaviour is changing and loyalty is being stretched. Buildings designed in the 1970's do not meet the needs of the current customer. Trafford Leisure has been unable to adapt the use of technology or other developments over the last few years, allowing the business to fall behind its competitors, particularly in health and fitness.
- 5.2 The rise in diverse and varying competition locally, nationally and virtually has made it increasingly difficult to not only retain current customers but also to attract new customers. There has never been so much choice available for the customer today and the perception of current and potential customers is jeopardising the viability of the company.
- 5.3 Trafford Leisure's board of directors has evaluated the company's financial proposals and has approved them as being deliverable. The income builds year on year from the opening of the new facility and is estimated to reach full potential by the fifth year. The details of this are commercially sensitive and included in the Part 2 report. The Council will be commissioning independent due diligence of the business plans as part of our risk mitigation.

6.0 Options Appraisal

- 6.1 In developing these proposals to build new leisure centres in Altrincham and Stretford a number of alternative options have been considered and are set out as follows;

6.2 Do nothing option

- a) Condition surveys and life cycle costs over the next 30 years mean that it would cost at least £20m just to maintain a basic level of health and safety compliance. This option would generate no additional income to offset the regular allocation of capital expenditure.
- b) More importantly this option essentially means closure as the centres become more and more unviable to operate due to the condition of the buildings and how that impacts upon usage.

- c) Closure would push residents toward more expensive options in the private health and fitness market or to the budget gyms that don't offer crucial activities like swimming and would impact particularly on the school swimming programmes that are leading the way for Trafford compared to national statistics.
- d) This option would do nothing to address the health agenda where we need to encourage and ensure more people become more active and, most importantly entice the inactive to become active through programmes such as Active Trafford, Healthy Hips and Hearts and Social Prescribing.

6.3 Refurbish option

- a) Altrincham Leisure Centre is at the end of its economic life and refurbishment is not a viable option.
- b) Stretford Leisure Centre was originally considered for refurbishment as the overall structure is still sound, with proposals were for a fairly basic 'makeover'. Given that Stretford and Old Trafford have some of the poorest health outcomes, in order to address this proposals to refurbish would have to be significantly enhanced to such a scale that the cost benefit versus a new build is only marginal.

When you factor in the land value it is more cost effective to build a new facility that is capable of offering facilities that will attract the inactive and will ensure a better return on investment from future operating revenues.

As well as delivering a new leisure centre for the local communities of Old Trafford and Stretford these proposals will provide sufficient capacity for the proposed UA92 student population.

The Civic Quarter master planning also provides a unique opportunity to integrate the proposed new facility into these proposals and deliver an ECB funded specialist cricket development facility within the leisure centre which also contributes to the long term trading revenues.

- 6.4 Overall, whilst these proposals set out a significant level of capital investment they offer the best financial return in terms of operating surpluses that cover the revenue costs of prudential borrowing and the building life cycle costs that negates the Council having to set aside money each year from its mainstream capital programme.

7 Sale Leisure Centre

- 7.1 The original proposals for Sale Leisure Centre were based on a fairly basic refurbishment of key customer facing aspects of the centre. Following subsequent detailed surveys of the building it became clear that there are

significant issues that would need to be addressed thus significantly increasing the costs to a point where refurbishment would be unviable.

- 7.2 Further to this, alternative options have been evaluated based on a new build either in the same location or an alternative site, preferable because the existing centre could remain open whilst a new build was taking place.
- 7.3 A number of alternative sites have been considered and ruled out on the basis of size, location or availability (in other ownership). This leaves the most likely option, which is to build new leisure centre on the site of the existing one.
- 7.4 In order to evaluate these two options an independent cost appraisal has been undertaken to investigate demolition and new build or refurbishment.
- 7.5 The cost appraisal recommends the demolition and re-build of a new facility from a value for money perspective rather than the refurbishment scheme for three key reasons;
 - a) The future operating revenue and costs would be greater than for a refurbishment (a greater return to the Council to meet the cost of prudential borrowing)
 - b) By reconfiguring the site layout from the current site layout it is possible to fit a residential development within the same space constraints thus realising proceeds that can help to fund the leisure centre development.
 - c) The current building is approaching the end of its original design life. Refurbishment will present a far greater risk from a cost and programme timeline perspective due to the unknown conditions of foundations and structures including superstructure, frame, upper-floors, roof, pools etc.
- 7.6 The cost appraisal indicates that the refurbishment option would cost £17m and provide 5,150 m² of Gross Internal Floor Area (GIFA). The GIFA is both a determinant of build cost and of future revenue generation. Whilst being marginally cheaper than a new build, a refurbishment would be incapable of realising a larger GIFA of 6,206 m², it increases the risks referred to previously and would not create the opportunity to bring forward a residential development to offset the overall cost of the scheme.
- 7.7 On this basis it is proposed that a more detailed business case is developed to include provision for a new leisure centre on the existing site together with a residential development in keeping with the locality and the Council's strategic objectives.

8 George H Carnall Leisure Centre (GHC)

- 8.1 The leisure centre will remain operational at least until the construction work and handover is completed at Urmston Leisure Centre estimated to be completed by early 2020.

- 8.2 At this point Trafford Leisure will not have an operational responsibility for the facilities and critically, the business plan for Urmston would not be deliverable if GHC remained as an operational leisure centre.
- 8.3 There is time during this construction phase to assess the implications for interim arrangements to be put in place pending the long term plans for the site. The Council is committed to full consultation with residents in early 2019 on future community use at GHC.
- 8.4 The Council is currently in the process of commencing the procurement of a development partner and the stages of this procurement and initial phases with our development partner in place are as follows (dates are estimated at this point);
- a) Issue a brief for 'Expressions of Interest – End of October 2018
 - b) 'Expressions of Interest' received – End of November 2018
 - c) Review and assess 'Expressions of Interest' – End of December 2018
 - d) Public consultation phase – January 2019
 - e) Agree development brief – February 2019
 - f) Issue tender invitation – March 2019
 - g) Tender submission – May 2019
 - h) Evaluation and award – June/July 2019
- 8.5 This timeline would leave some margin between the operational closure of the leisure centre and the development partner being appointed to work through the proposals and short term management arrangements from when Trafford Leisure withdraws from their management responsibility for this site.
- 8.6 In the interim Manchester Giants will be utilising the centre for their home games, and are liaising with Trafford Leisure in this regard. This is in line with the license signed 03 May 2018.

9 Financial Summary

- 9.1 This section provides an update on the following financially related matters:-
- a) The Capital Costs and Proposed Resourcing
 - b) Lifecycle Funds
 - c) Impact on the council's budgets and Trafford Leisure business plan
 - d) Short Term Issues
 - e) Risks
- 9.2 Elements of this section are commercially sensitive and detailed in Part II of this report.

9.3 The estimated capital cost of the proposed new leisure centres is £46.843m, inclusive of works, fees, equipment, car parking, risk contingency and indexation allowances.

9.4 This can be financed through a mix of resources summarised in the table below and as follows:-

- **General capital receipts** – currently £8.145m has been allocated within the capital programme on the basis of the level of backlog condition works currently outstanding.
- **Receipts from surplus sites** – from the disposal of the current Stretford Leisure Centre site
- **External contributions.**
- **Prudential borrowing** – the balance of the investment financing requirement of £34.698m will be met by annuity debt which will be borrowed over 40 years at an estimated rate of 3.25%. This takes account of an assessment of the buildings’ useful life which, with adequate lifecycle expenditure should last a minimum of 40 years. This level of borrowing exceeds the amount already agreed in previous capital programmes. The extra borrowing of £5.4m will be included in the main budget report due in February 2019 for approval by Council.

	Stretford	Altrincham	Total
	£000	£000	£000
General Receipts	4,075,000	4,070,000	8,145,000
Site Specific	3,000,000		3,000,000
External Grants	1,000,000		1,000,000
Borrowing	16,384,581	18,313,301	34,697,883
Total Resources	24,459,581	22,383,301	46,842,883

9.5 It is estimated that over the 40 year period all borrowing costs can be met by the anticipated additional income streams which will be received and paid to the Council by way of a peppercorn lease together with a management fee in the form of a payment to trade from the improved facilities (plus VAT). The Council will require Trafford Leisure to enter into new agreements to regulate their occupation and management of the new and improved facilities.

9.6 During construction, debt costs are estimated in the region of £1.65m but in accordance with accounting regulations it is proposed to capitalise this cost to avoid it being a hit on the revenue budget.

- 9.7 **Lifecycle Funds** - In order to ensure the facilities are maintained to a high standard it is necessary to make an annual provision that will be set aside to pay for future lifecycle costs. An external assessment has been undertaken which would suggest making an annual allowance of £45 / sq.m which equates to £22.7m over 40 years as follows:
- Stretford £323k p.a. (£12.9m over 40 years)
 - Altrincham £244k p.a. (£9.8m over 40 years)
- 9.8 The Council would look to ensure that there was no adverse impact on the revenue budget and therefore seek to cover the costs it would incur in respect of the debt and lifecycle provision. An assessment of the profitability of the two centres has been undertaken which shows that income streams will mature over a five year period with a continued inflationary rise caused by price and cost inflation after that.
- 9.9 Lifecycle costs over the period are estimated at £22.7m over the 40 year period which indicates they are affordable from the profits of the two centres but this surplus position is only achieved after year 15. See Part II report.
- 9.10 It is clear that over the period the leisure centres should produce a surplus sufficient enough to cover the Council's debt and lifecycle costs but in the early years, given that a cautious view has been taken on income growth, there will both be a short term deficit on financing costs and a longer term deficit on the ability of Trafford Leisure to cover lifecycle costs.
- 9.11 It is therefore proposed that lifecycle provision is made over the period from Year 6 onwards, given the maturing trading position until year five and the likelihood that no lifecycle costs will be incurred in that initial period. It will be based on the combined net profitability, after repayment of debt costs, less an amount retained by Trafford Leisure of £150,000 per annum to cover unforeseen costs and to provide mitigation in the event of variations in overall profitability.
- 9.12 During development of Altrincham Leisure Centre it is projected that the trading position of the Company will suffer and whilst mitigations are being considered it is likely that revenue shortfalls occur.
- 9.13 The trading position of the leisure centre assets shows that across the portfolio there are a number of well performing sites which deliver an overall surplus and others less so and which in effect rely on a subsidy from the other centres. Overall the trading position of the Company is broadly break-even. The capital works at Urmston and Altrincham will involve some periods of closure which will have an adverse impact on the overall trading performance of the Company and the cross subsidy arrangements that currently exist given that both centres currently produce individual trading surpluses. The impact of maintaining the current subsidy arrangement and the lost profitability during closure is estimated at £1.123m

		2019/20	2020/21	2021/22	Total
		£	£	£	£
Altrincham		190,957	356,562	416,062	963,581
Urmston		160,272			160,272
Total		351,229	356,562	416,062	1,123,853

9.14 The combined impact of this and the shortfall on financing costs of £674k in the short term is £1.798m and whilst affordable within the overall model, ie over the 40 years it is estimated that net profitability is £12.2m gives rise to some short term financing arrangements. Options exist to cover this:-

- Direct impact on MTFP – given the existing pressures this is not a viable option
- Use of reserves, by way of a loan – this would require a rationalisation of reserves, to allow creation of a leisure centre ring-fenced reserve. This would be used to underwrite the potential shortfalls as follows and will require a full review of all reserves, with the future reserves strategy giving priority to this requirement. The repayment of reserves from future trading surpluses should commence in the third year following completion.

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£	£	£	£	£	£
Estimate of Reserves Requirement	351,229	356,562	416,062	519,887	154,523	1,798,263

9.15 Risks - A number of risks exist:-

- **Business Plan** – this has been approved by the Board of Trafford Leisure as providing a realistic projection of the trading position of the two new centres with forecast demand based on national modelling techniques. In the event that projections are not achieved the modelling above incorporates an element of retained profit as a contingency.
- **Capital Costs** – the Altrincham and Stretford delivery models have been carefully risk managed from the outset.

Altrincham was developed initially from a desktop appraisal in conjunction with design solutions. This ensured, for example, the need for a new substation, allowances due to the topography of the land on which the site is located and the requirements to ensure the site remains operational have all been included. This resulted in the need for an extended programme for Altrincham. Stretford is to be located on a clean brown field site.

Construction risks have also been considered resulting in a Single-stage Design and Build for Stretford and Two-stage Design and Build for Altrincham. By undertaking these routes it will allow Trafford Council the ability to manage the full programme for Stretford in conjunction with the Project Management team whereas for Altrincham a contractor will be appointed earlier in the programme under the Pre Contract Services Agreement (PCSA) to reduce the capital risk associated with this particular programme. Both programmes has have been carefully assessed including appropriate contingencies, inflationary allowances and costs built in to deliver Stretford with a 125 week lead time and Altrincham 157 week lead time for Altrincham

- **Interest Rates** – a rate of 3.25% has been assumed in the above modelling and whilst this gives reasonable headroom on current rates there is a risk of a potential difference when actual take-up is required in 2020.
- **Inflation Risk** – the projections above include an annual growth in net profitability due to indexation at a rate of 2% per annum. If charges weren't linked to annual inflationary increases, or inflation rates were less than 2% this would have a significant effect on profitability and ability to cover future lifecycle costs.
- **Costs to planning stage** – expenditure is at risk until a successful planning decision, judicial review period and procurement of contractors.

10.0 Procurement Strategy

10.1 The OJEU process is proposed in order to open the opportunity to the whole market and to secure best value to the Council. This process has been included in the project plans for each facility.

10.2 Altrincham Leisure Centre - It is recommended that this development is procured on a Two-Stage Design & Build basis using the OJEU route. This procurement process would commence immediately following the Executive approval process.

10.3 The contractors would propose a design team as part of their submissions. The evaluation of the bids would be assessed on a quality / price split. Quality assessments based on experience, approach to the project, social value and proposed team / personnel; Price assessments based on overheads, profit, design and management fees and elements of the preliminary costs.

- 10.4 This approach is proposed in consideration of the specific circumstances relating to this facility. The intention is to construct the new facility in place of part of the existing centre whilst maintaining operation of the residual swimming facilities thus maintaining some services and the school's swimming programme. Logistical and buildability input from a contractor during this more complex approach and design phase will greatly assist the process. Construction award will be upon completion of Stage 2 activities of early procurement of works packages and logistical considerations.
- 10.5 Stretford Leisure Centre - It is recommended that Stretford is procured on a Single Stage Design & Build basis using the OJEU route.
- 10.6 The design team would develop the design up to the end of RIBA Stage 4 (Detailed Design) and then ask contractors to price the project as part of their submissions. The evaluation of the bids would still be assessed on a quality / price split, although the priced submission would be more onerous. Quality assessments would be based on experience, approach to the project, social value and proposed team / personnel; Price assessments would be based on a full market tested cost plan.
- 10.7 This approach has been proposed in consideration of the circumstances specific to Stretford. The new facility is proposed to be constructed on a relatively flat brown field site with no existing buildings and manageable logistic arrangements. We can use this opportunity to drive the design and really test the market. There would be no loss of service to residents as the existing leisure centre would remain open during the build phase

11.0 Timetable

- 11.1 Altrincham Leisure Centre will be complete and operating by February 2022 following an 157 week lead time, subject to the Executive approval of 29th October 2018.
- 11.2 The build time is slightly longer for Altrincham as the new centre will be built on the existing site. The plans and costs allow for a phased build, retaining the pools whilst the rest of the new pools are constructed and operational so that building work can continue in the space occupied by the existing pool.
- 11.3 A detailed timeline has been developed for the key stages of design, planning and construction with a detailed project plan that supports a two stage design and build procurement strategy;

Procure contractor stage 1	12/03/2019
Stage 2 – Stage 5 design	28/03/2019 – 11/02/2020
Submit planning	02/08/2019
Planning decision notice	05/11/2019
Appoint contractor stage 2	06/01/2020
Construction complete	31/01/2022

- 11.4 Stretford Leisure Centre will be complete and operating by half year (June) 2021 following an 125 week lead time, subject to a successful Executive approval 29th October 2018.
- 11.5 The existing Stretford Leisure Centre will remain operational until the new facility is opened and programmes will be developed at the existing centre to meet the initial requirement for UA92 students living in the locality.
- 11.6 A detailed timeline has been developed for the key stages of design, planning and construction with a detailed project plan that supports a single stage design and build procurement strategy;

Trafford Council / Gardiner and Theobald procure design team	30/10/2018 – 12/11/2018
Stage 3 and stage 4 design progress	11/02/2019 – 20/06/2019
Submit planning	05/04/2019
Planning decision notice	12/07/2019
Procure contractor	24/06/2019 – 31/01/2020
Commence construction	03/02/2020
New facility open to the public	04/06/2021

- 11.7 Sale Leisure Centre requires further feasibility analysis and separate Executive approval to proceed. It would not be practical to commence construction until after Stretford and Altrincham are completed so it is likely we would not commence construction until mid-2022. However, subject to subsequent Executive approval the detailed design, procurement and planning application stages could be completed in due course to ensure a prompt start on completion of the other new builds.

12.0 Next steps

- 12.1 The intention is to develop the current proposals to a stage where they are suitable to submit a planning application. Prior to submitting the planning application there will be a further report submitted to the Executive setting out the full details of the planning application, capex, and commercial plans based on the following steps.
- a) Commence the procurement processes.
 - b) Enter into specific discussions with Sport England to further refine and improve proposals and seek any opportunities for financial support to reduce the borrowing requirements.
 - c) Refine the designs to optimise the space requirements reducing wherever possible the capex requirement.
 - d) Seek independent specialist evaluation of the financial projections to provide assurance on the deliverability of Trafford Leisure's business plan.

- e) Develop high level design, costings and business case for Sale Leisure Centre and report back to the Executive.

13.0 Recommendations

- 1) Approves the Leisure Centre Investment Strategy as set out in the report including the capital investment of £46.843m in the development of new leisure centres at Stretford and Altrincham and the associated prudential borrowing requirements of £34.698m.
- 2) Approves the release of £2.180m within the overall capital sum to develop the proposals to planning application stage.
- 3) Approves the proposed procurement process to secure design and build contracts for Altrincham and Stretford Leisure Centres as set out in this report and notes that further reports on the award of the contracts will be brought back to the Executive in due course.
- 4) Delegates authority to the Corporate Director of Place in consultation with the Corporate Director for Governance and Community Strategy to negotiate and agree the terms of agreements with Trafford Leisure CIC Limited in relation to the use and operation of the proposed new facilities and to secure income payments to cover the Council's cost of borrowing and future lifecycle costs.
- 5) Delegates authority to the Corporate Director for Governance and Community Strategy to enter into and sign the said agreements on behalf of the Council.
- 6) Notes that a further report setting out the business case for capital funding related to the development of Sale Leisure Centre will be brought to the Executive in due course.
- 7) Notes the position in relation to George H Carnall Leisure Centre and that a further report will be brought back to the Executive in December 2018 setting out proposals prior to public consultation on the same

Implications

Relationship to Policy Framework/Corporate Priorities	Supports the Council's Sport and Physical Activity Strategy - http://www.trafford.gov.uk/residents/news/articles/2018/2018-04-10-New-Sport-and-Physical-Activity-strategy.aspx
Relationship to GM Policy or Strategy Framework	The decision relates to the GM Moving strategy
Financial	See Section 4 and Part II Section 4
Legal Implications:	Early steps which will be required to be taken as a consequence of the approval of these recommendations are those related to the negotiation and finalisation of a new operating

	agreement to be entered into between the Council and Trafford Leisure.
Equality/Diversity Implications	New developments and redevelopments will be DDA compliant and accessible.
Sustainability Implications	New developments and redevelopments will be more sustainable than current facilities
Resource Implications e.g. Staffing / ICT / Assets	Resource is required to complete this work.
Risk Management Implications	See Report
Health & Wellbeing Implications	See Report
Health and Safety Implications	See Report

Consultation

Consultation will take place as part of the planning application for Stretford and Altrincham leisure centres.

In depth consultation will take place with the local community with regards to the future proposals for the George H Carnall site.

Other Options

See section 6 of this report

Reasons for Recommendation(s)

Old Trafford and Stretford have some of the starkest health inequalities in the Borough

We know that physical exercise plays an important part in improving the health and wellbeing of the general population helping people to live longer and in better health. This has a direct impact on reducing the growing burden upon the health and social care system. Research suggests that the proximity of a leisure centre to where you live has a bearing upon the amount of exercise taken and leisure centres play an important role within the local community.

Trafford has one of the biggest swimming programmes in the country that is enjoyed by many young school children from an early age and it is considered to be of vital importance to the future health of children in Trafford that these programmes are able to continue. Pools in their own right are not commercially viable when you take account of the capital costs associated so any loss in provision would likely not be met commercially through private sector operators. This would push residents towards more expensive options available in the market and swimming is such an important part of maintaining a healthy lifestyle and encouraging young people from an early age to use their local leisure facilities which has been so successful in Trafford through school swimming programmes and family swimming sessions and lessons.

With the facilities in decline the strategic importance of this to the Council's aims and objectives is paramount. Doing nothing ultimately means closure as usage declines due to the extremely poor condition of the existing facilities.

The estimated cost of basic maintenance over next 30 years is in the region of £20m and this would do nothing in terms of generating additional income to offset this cost or help to encourage people to become active.

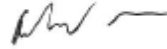
Key Decision: yes

If Key Decision, has 28-day notice been given? Yes

Finance Officer Clearance: GB

Legal Officer Clearance: JLEF

CORPORATE DIRECTOR'S SIGNATURE:

A handwritten signature in black ink, appearing to be 'J. Leff', written over a horizontal line.

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.