

Headline business case for capital investment in the development of the council's leisure facilities at Grange Paddocks and Hartham

Introduction

The investment of capital in the development of the council's two leisure facilities was always conditional on approval of a robust business case, both financial and service related.

While the timing is of necessity tight, officers realise that it is important that members can be satisfied that the elements of the business case are robust before they make any commitment to proceed. Early challenge from members would therefore be very helpful in the process of identifying and clarifying the issues. Members may wish to consider business case for this project as a number of elements.

- 1. Financial analysis**
- 2. Service delivery**
- 3. Underlying assumptions, key points and risks**

1. Financial analysis

Capital required

The original estimated capital cost guideline for the development of both sites was £3.2m.

The subsequently designed and tendered proposals that received planning consent on 11 March 2009 are as follows (further breakdown of costs at appendix 1):

£3,584,900 including fees for both sites
£1,698,950 including fees for Hartham only
£1, 885,950 including fees for Grange Paddocks only

The original proposition was to develop both sites but members might wish to consider the option of developing only one or the other in the context of the separate assessment of benefits done for each site and jointly.

The estimated cost of capital over ten years at 5% is £1,792,450, (£179,250 p.a.).

The cost of capital and years to recover capital is assessed in the more detailed appraisal at appendix 1.

Revenue benefits and impacts

The original indicative variant bid relating to the development proposals submitted with the base bid showed a reduction on the base bid of £4,276,930 over ten years. The actual variant bid, based on the proposals that obtained

planning consent on 11 March 2009, as submitted by SLM on 25 March 2009 shows a reduction on the base bid of £3,324,841, representing a fall in projected saving to the council of £952,089 over ten years if compared with the indicative variant bid.

- The council is contractually bound to pay SLM a management fee of £4,430,304 over ten years for the two sites
- If £3,584,900 capital is committed to the redevelopment works the management fee that the council will pay SLM over the ten year period of the contract will reduce to £1,105,463
- The capital investment of £3,584,900 will save the council £3,324,841 over the ten year period

The profile of the saving of £3,324,841 shows that the positive variation from the base bid/the annual saving, will not start until the second year of the contract. In fact, if the development works go ahead, there will be an increase in the first year of the management fee of £329,570. This is due to projected income loss for SLM due to disruption to the facilities during the build period, with particular reference to the need to close the Hartham gym for a period, but also some drop of in custom due to temporary disruption to changing arrangements. This is an issue for the council's budget for 2009/10, but one that can be managed over the first four years of the medium term financial plan that shows a saving over this medium term period of £400,000 in relation to the capital investment in 2011/12 and 2012/13. If the capital were to be invested, the projected actual saving over this period over the base management fee, as opposed to the saving of £400,000 in the medium term financial plan, would be £646,641 (not including cost of capital).

Summary:

Current management fee payable (base bid) over ten years	£4,430,304
Management fee over ten years as a result of investment	£1,105,463
Difference/saving over ten years	£3,324,841

In terms of the medium term financial plan, the potential savings from the investment are illustrated as follows:

	MTFP	Projected fee
2008/09	£215,000	£297,000
2009/10	£834,000	£1,028,000
2010/11	£657,000	£461,000
2011/12	£390,000	£163,000
2012/13	£475,000	£91,000

2. Service delivery

The core enhanced leisure offer at Grange Paddocks will consist of:

A new 80 station gym space – an increase of 54 pieces of equipment, with various fitness zones to replace the existing 26 station gym. A new studio area (where the gym was) and refurbished high specification changing facilities.

The core enhanced leisure offer at Hartham will consist of:

New studio space, crèche and quiet area, refurbish the club changing rooms and changing village to high specification village. A new 65 station gym space, with various fitness zones – replacing the existing 42 station gym – an increase of 23 pieces of equipment.

Members are invited to consider that in terms of service delivery the product is going to be appreciated by existing and new customers. The council would expect SLM to record increased levels of customer satisfaction arising from the development, in particular the high specification refurbishment of the changing facilities. This performance indicator will be monitored and reported to Community Scrutiny Committee.

The improvements would provide an addition to the affordable value end of the leisure market allowing access for a greater number of people which is an appropriate form of enhancement particularly in relation to Bishop's Stortford and recent growth in population: providing access to an enhanced and updated product for growing local populations.

The new facilities will have the capability and capacity to attract new customers and offer a range of affordable healthy activities for all age groups (the provision of a crèche at Hartham will allow parents of young children the opportunity to exercise). As such, members are invited to consider that the investment will contribute substantially to the following objectives, principles, ambitions, priorities and national indicators:

'ensure access to opportunities to take part in sport, leisure and cultural community activities' Cultural Strategy 2007/12.

'develop and expand Exercise Referral and Cardiac Rehabilitation Schemes' Cultural Strategy 2007/12.

'support projects and initiatives that encourage uptake of physical activity and sustained healthy lifestyle change.' Public Health Strategy 2008 – 2013.

'encourage healthier lifestyles and reduce health inequalities' Sustainable Community Strategy 2009 – 2024.

'maintain and develop the viability of our community facilities in both rural and urban areas' Sustainable Community Strategy 2009 – 2024.

'engage with young people to achieve the five outcomes of Every Child Matters: staying safe, being healthy, enjoying and achieving, making a positive contribution and making an economic contribution' Sustainable Community Strategy 2009 – 2024.

'develop and support accessible leisure, sports, arts and cultural programmes throughout the district including those offered at smaller community centres' Sustainable Community Strategy 2009 – 2024.

'Adult participation in sport and active recreation' National indicator 8/Local Area Agreement target and duty to cooperate.

3. Assumptions, key points and risks

- The imperative driving the timescale of this project is the benefit from getting on site in time to allow for a 28 to 30 week contract to complete at the end of December 2009 in order to reap the revenue benefits of the new facilities and in particular the gym facilities in time for the annual January gym membership rush
- The projected £3,324,841 savings over the contract can be projected over subsequent years as the council will still be in ownership of the improved facilities after the ten year contract period with SLM ends
- The risk over and above the variant bid as presented will be taken by SLM, e.g. if there is an extension to the contract period, if there is a greater than expected drop off in custom due to the disruption during the build period, and if the revenue income increase is less than anticipated
- If there is delay due to the requirement to undertake an archaeological dig at Grange Paddocks the risk will be negotiated