

**Cabinet**

**15 January 2020**

**Leisure Transformation**

**Key Decision REAL/11/19**



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## **Report of Corporate Management Team**

**Ian Thompson, Corporate Director of Regeneration and Local Services**

**Councillor Carl Marshall, Cabinet Portfolio Holder for Economic Regeneration**

### **Electoral division(s) affected:**

Countywide.

### **Purpose of the Report**

- 1 The purpose of this report is to highlight the importance placed on physical activity and sport within County Durham and the proposed transformation programme for leisure centres which will work to improve health and wellbeing outcomes for residents and further build the leisure economy.
- 2 The report sets-out the case for change for the Council's leisure centre offer; proposing an outline programme which would include building new leisure centre facilities, refreshing existing buildings and ultimately progressing towards an extensive new programme of activities and amenities which will work towards improving health/wellbeing outcomes and creating a prosperous leisure economy for County Durham.
- 3 An in-principle agreement is sought to the approach and authority to move to the next stage of planning and implementation.

### **Executive summary**

- 4 The Council has, over the last 18 months, undertaken a review of its leisure centre provision with a view to transforming the offer within the wider context of the existing physical activity infrastructure embedded in local communities. The transformation will work towards creating a healthier population, providing a higher quality offer for residents and be more cost effective in its delivery through increased footfall and better meeting the needs of families in County Durham.

- 5 A leading leisure transformation specialist (Alliance Leisure Services) has been contracted to work with DCC to maximise learning from other national sites of best practice and to provide independent scrutiny of the work required for County Durham to transform the offer to residents.
- 6 The work to date has included:
  - (a) understating the health and wellbeing needs of County Durham residents through Durham Insights;
  - (b) taking into consideration national and local strategic policy and guidance for physical activity and the role / added value of leisure centres in communities;
  - (c) reviewing the existing physical activity assets in communities and understanding the provision and utilisation of each centre and the flow of people using the centres currently;
  - (d) assessing the market for existing and potentially new activities to determine likely/potential demand and improved social impact;
  - (e) considering the required investment to enable the potential new demand to be realised and to determine how best to attract those currently not using leisure centres to be drawn in and attracted to increased leisure opportunities;
  - (f) gaining an understanding of the wider implications of undertaking the changes, including revenue and business planning.
- 7 The work to date has identified the opportunity to maximise health gain and through a return on investment approach how to be more cost effective in delivery. Two core areas to focus on include:
  - (a) introducing a range of new activities as well as building on existing ones to meet the diverse needs of families, across the life course, thus ensuring there is universal access for all as well as offering more targeted opportunities for the harder to reach segments of the population;
  - (b) raising service standard and quality across the offer to maintain use for existing service users and significantly increase new service use.
- 8 Taking all of the learning above into account and in the context of the existing breadth of physical and sporting opportunities across County

Durham, it is proposed that the leisure centre offer can be transformed through five approaches to improvement. These are laid out below:

(a) **Approach 1: Refreshing the existing offer:** This would take place in four of the existing leisure centres:

- Consett
- Newton Aycliffe
- Wolsingham
- Teesdale.

Whilst Consett is a new centre and Newton Aycliffe has been recently refurbished, there are opportunities to refresh the offer and attract different and additional residents to access the opportunities available. Wolsingham is to be transferred into Culture, Sport & Tourism management in September 2020 and will require some refresh work, whilst Teesdale would benefit from a refreshed 'look and feel' along with the introduction of the Thrive branding throughout the centre.

(b) **Approach 2: Refurbishment / new installations:** Five of the current leisure centres are to be refurbished and / or change their programme to introduce new activities. The five being:

- Abbey
- Freemans Quay
- Louisa Centre
- Peterlee
- Spennymoor.

These centres will require a range of works from the installation of new equipment to substantial refurbishment to accommodate new and/or additional activities.

(c) **Approach 3: The replacement of Leisure Centres facilities.** This would impact on three current sites:

- Woodhouse Close
- Chester-le-Street
- Seaham.

The current layout, condition and location of these centres requires consideration regarding the replacement of these facilities to maximise health and wellbeing benefits for the population of County Durham and the economic vibrancy of the leisure offer.

Health impact assessments (HIA) would be undertaken on each of the proposed new locations to determine the maximum health gain opportunities and to ensure the transformed leisure offer would be seen as adding value to the wider physical activity infrastructure.

(d) **Approach 4: Retain a leisure offer and create greater links with other services and the community:** Two leisure centres would benefit from this approach:

- Meadowfield
- Shildon.

There are opportunities to either expand service offers within these buildings and develop closer links with the community. This would make the buildings more viable from a cost effectiveness perspective and increase footfall due to the co-location of services and greater community involvement.

(e) **Approach 5: A partnership development.** One leisure centre has the opportunity to become part of another organisation's infrastructure:

- Riverside.

To work in partnership with Durham County Football Association and other key users would improve opportunities for the population to gain access to increased coaching opportunities and increase uptake in the use of facilities overall.

## **Proposed operating model**

9 A move to a single operating model for all indoor leisure centres is the proposal. This would be via contract negotiation and expiry of:

- Competition Line income share contracts;
- 1Life leisure management contracts.

10 There are three operating models in place currently: direct Council management, Council management with an income share partner and

management via a contract. The move to a single model will require the early termination of the income share agreements and the insourcing of the leisure management contract.

## **Funding**

- 11 In order to deliver the transformation as highlighted above a capital budget of up to £62.8 million would be required. It is recommended that the forecast additional income generated from this investment of £1.63 million is utilised to finance £38 million of the required borrowing. The remaining £24.8 million of capital investment to be funded from the MTFP (10) and MTFP (11) capital programmes.
- 12 In addition, a one-off revenue budget would be required to terminate the Competition Line income share agreements. The detail of these agreements is set out in the part B report. This investment is forecast to generate an annual net saving. It is recommended that the one-off budget is funded from available surplus budget in 2020/21 with the forecast saving contributing to MTFP (10) savings.
- 13 An additional 33.29 full time equivalent posts will also be created if this total transformation project is delivered as currently proposed.
- 14 This is a major investment programme and there will be opportunities for community engagement within the next phases of the process to ensure residents and members get the chance to further shape the proposals.
- 15 Whilst there is further advanced feasibility work to be undertaken before actual transformation can begin, approval is required to progress with the project at the current levels of financial commitment.

## **Recommendation(s)**

- 16 It is recommended that:
  - (a) an in-principle agreement is given to the overall programme of change for leisure centres, as set-out in this report:
    - i. Note that the detailed financial information and commercially sensitive information is provided in a corresponding part B report.
    - ii. Capital investment of £62.8 million is included in MTFP(10) and MTFP (11) capital bids with £38 million being funded on a self-financing basis. The remaining £24.8 million being financed from the broader capital programme.

- iii. A one-off revenue investment is utilised to buy out the Competition Line income share agreements. Funded from available surplus budget in 2020/21 with the forecast saving being utilised to support MTFP(10).
- iv. Note is taken of the VAT Partial Exemption impact of the programme.
- v. The Corporate Director of Regeneration and Local Services, and the Corporate Director of Resources, in consultation with the portfolio holders for Economic Regeneration and Deputy Leader and Finance, be given delegated powers to approve:
  - i. The transformation works for all refurbishment and realigning of services once detailed capital and revenue implications of individual projects are known.
  - ii. The negotiated early termination of the Competition Line UK income-share agreements.
- vi. The Corporate Director of Regeneration and Local Services and the Corporate Director of Resources present a further report on new build options once the advanced feasibility work is complete which will include the health impact assessment.

## Background

### *Need and context*

- 17 Leisure covers a wide range of activities and pastimes which vary, not only from person to person, but also throughout an individual's life. To set a scope for this project the focus is upon transforming active leisure which is facilitated by Durham County Council primarily within its Leisure Centre stock. However, to maximise any impact upon the health and wellbeing of our residents and grow the leisure economy the review considers the wider context of: playing pitches, parks & countryside, play areas, schools, outreach work, community provision including Durham County Council transferred assets and both private and voluntary sector provision. It also considers how the Durham County Council offer is perceived and recognised by its residents and users i.e. its brand.
- 18 It is well evidenced that physical activity maintains good health and reduces the risk of long-term conditions such as heart disease, diabetes and obesity. It is beneficial for mental health and can reduce the need for the medication of conditions such as depression and anxiety. Physically active people are more likely to be in work contributing to the economy of County Durham and are less likely to be socially isolated if participating in activity. Some people find it harder to undertake physical activity and it is the role of public health and partners to understand the barriers to participation and consider ways to enable the population to access opportunities and increase participation.
- 19 There are known inequalities in relation to access to opportunity and uptake of physical activity (taken from national active lives survey 2017/18):
- (a) 61.9% of adults in County Durham are achieving the 2019 Chief Medical Officer's (CMO) guidance of an average 150 minutes of moderate intensity activity per week. The England average is 66.3%;
  - (b) 15.8% of County Durham children and young people in school years 1 – 11 are achieving the CMO guidance of 60 minutes or more **every day** (approximately 9,300 children). This is below the England average of 17.5%;
  - (c) 27.8% of children (approx. 16,500) in years 1-11 in County Durham do an average of 60 minutes or more a day **but not every day**;

- (d) 39.9% of children and young people are doing 30 plus minutes of physical activity within school and only 32% are active every day both at and outside of school.
- 20 There is evidence nationally on how physical activity levels vary depending on age, gender and social background:
- (a) adult men are more likely to be active than women;
  - (b) activity levels generally fall with age with the sharpest decline at ages 75-84 years;
  - (c) nationally for children and young people, boys (20%) are more likely to be active every day than girls (14%); and
  - (d) activity levels decrease as deprivation increases. Inequalities in activity levels exist based on family income, 39% of children in the least affluent families do fewer than 30 minutes of activity a day, compared to 26% of children from the most affluent families.
- 21 Active Durham is the multi-agency strategic group driving forward plans to reduce the physical activity gap. The leisure centre transformation is part of the strategic plan to improve participation and health outcomes.
- 22 Whilst this report deals with investment for leisure centres the Council is committed to continue to invest in the wider offer in order to support a geographically wide and diverse variety of leisure opportunities in both the built and natural environment. Parks and the countryside estate, playing pitches and play areas all play a significant role along with the vast number of community facilities across the County.
- 23 This creates a breadth of physical activity opportunities including substantial run, walk and cycle programmes, grass roots sporting teams, multi-use games areas in communities and elite sporting grounds such as the Emirates cricket ground. Leisure centres play a critical role within the wider physical activity infrastructure and offer many health, social and wellbeing benefits to residents and visitors alike.
- 24 Leisure centres are places where families and communities can come together to play and socialise, be it sport or less formal activity, to learn new skills through a variety of coached activities from learning to swim or to practice yoga. People can become physically active either in group exercise or individual programmes tailored to individual needs. Leisure centres are also a place where people can socialise and enjoy leisure time with friends and family.

- 25 Leisure centres benefit a wide range of corporate objectives such as the regeneration of towns and neighbourhoods, address social isolation, improve health and wellbeing and provide opportunities to avoid crime and anti-social behaviour.

### *Measuring impact*

- 26 One measure used to determine the impact leisure has on the above is known as 'social value'. There are also return on investment tools developed by the National Institute for Clinical Excellence (NICE) which are to be further explored going forward. The NICE return on investment tool will be part of the health impact assessment work at a later date. For this report Alliance Leisure has focused on the social value calculation.
- 27 The social value calculator has been developed by Sheffield Hallam University, Experian and 4Global in partnership with a number of leading leisure industry organisations using a national model for measuring social return on investment in sport in England. (see appendix 2 UK Active physical activity report).
- 28 The measures of success for this leisure centre transformation project will be:
- (a) a reduction in health inequalities, as measured by health equity audits across the sites;
  - (b) an increase in physical activity within the population with an emphasis on more vulnerable groups;
  - (c) an overall improvement in social value as measured by the social value calculator;
  - (d) a reduction in revenue subsidy; and
  - (e) contribution to regeneration programmes and visitor attractions.

### *Changes in society's expectations of leisure centres*

- 29 The leisure centre has historically been the main means through which the above outcomes have been realised from a physical activity perspective. The nature, scope and popularity of leisure activities has, however, changed considerably in recent times, and certainly since the majority of the Council's provision was developed. Whilst there has been a decline in many traditional sports hall related activities together with other areas such as squash, some other activities remain popular but within a context of a significantly changed level of customer expectations. (Appendix 3 Sport England - Active Lives Adult Survey

Nov 2017/18 presentation and spreadsheet showing decline in traditional sport). Similarly, other new more appealing and interactive activities are beginning to gain popularity.

- 30 The current facilities offer a very traditional mix of sport activities; this is in need of refreshing with the introduction of activities that are attractive to new and wider audiences. If the health, wellbeing, social value and the efficiency of the service is to improve, transformation must attract new participants whilst retaining those who are already using the centres.

### **Current position**

- 31 Most of the leisure centres in County Durham were built over thirty years ago; Consett, Freemans Quay and an extension to the Louisa Centre being the only exceptions. Whilst some have benefitted from major refurbishment (Newton Aycliffe and Spennymoor) to either accommodate additional services or provide a more modern feel, the majority do not meet the expectations of leisure centre users of today and do not attract the population who are furthest away from participating in physical activity. There is decline in racket and other traditional sports and a rising trend in adventure type activities (Appendix 3).
- 32 The latest condition surveys place an estimated capitalised maintenance cost for the current 5-year period at £6,816,056 (Appendix 4) and, with centres such as Woodhouse Close now over fifty years old, these costs are not expected to reduce unless a replacement strategy is agreed.
- 33 The centres and their traditional mix of activities currently attract over 4 million visits per annum. There is much opportunity going forward to more smartly identify who our users are and how we better attract residents and visitors into leisure centres who have previously not attended regularly. This current and potential expanded usage has a significant health, wellbeing and social value.
- 34 In order to measure benefit from this project and related investments, the current social value has been measured for 10 of the 14 leisure centres (Appendix 5 - these centres are those proposed for significant investment). This provides a baseline for which the value of any investment can be assessed against any increase in the social value measure.
- 35 In addition to these completed calculations, further work going forward will be to consider the NICE return on investment tool for physical

activity and to track changes in the health and wellbeing of our population through the key public health outcome measures.

### *Social value calculation for County Durham*

- 36 Social value is calculated using a database of research which considers local demographics, current users, types of activity and the numbers of, as well as how regularly, people engage in participation. The database can compare this data with data from other areas and develop a social value based on 4 key categories.
- 37 The current total social value is £22,798,858; this is broken down into 4 categories as follows:
- Improved subject-wellbeing £16,897,282
  - Improved health £ 4,990,651
  - Increased educational attainment £ 887,242
  - Reduction in crime £ 23,683

### *Sport England performance comparison*

- 38 The Council has also benchmarked its performance with the Sport England National Benchmarking Service (SENBS). The table below shows SENBS averages in comparison to DCC averages for the 2017/18 financial year.

2017/18	SENBS	Durham average	Difference	+/-
Income per Station	£9,456	£4,607	£4,850	-
Swimming Income per m2	£1,102	£829	£273	-
Main Hall income per Badminton Court	£20,484	£11,310	£9,174	-
Income per Visit	£4.24	£2.21	£2.03	-
Staff Costs as % of Income	55%	95%	-40%	-
Total Cost per Visit	£4.02	£4.59	-£0.57	-
R&M per m2	£21.33	£13.81	£7.53	+
Utilities per m2	£33.33	£27.01	£6.33	+
Cost Recovery	110%	53%	57%	-
Subsidy per Visit	-£0.30	£2.38	-£2.68	-

- 39 Our income performance is significantly below the SENBS for all key income indicators. Whilst the economic climate in the region will affect this, the difference in our income per visit - effectively customer spend per visit - is significant. The available disposable income of residents and visitors in County Durham and associated poverty must be taken into consideration when only comparing to England. Nonetheless there are significant opportunities to increase DCC's income through a vibrant, cost effective leisure centre offer.

- 40 Staff costs account for 95% of the income compared to just 55% SENBS. The leisure economy is across public sector, private sector and voluntary community sector. This will account in part for the variation in staff costs when comparing to Sport England data. Many organisations run with zero-hour contracts and minimum wage. In DCC there is a contractual requirement required for paying staff enhancements, for unsocial hours for example. The poor income performance also significantly impacts upon this indicator.
- 41 We also fall below the SENBS average for gym income per station which is an indication that our gym and fitness product is in need of change and has opportunities for improvement and increased usage.
- 42 Sports hall income is also significantly low which is an indication of oversupply and poor activity use/programming. The Sport England Facility Planning (appendix 6) Model also suggests there is an oversupply of sports halls in County Durham. This is part of the re modelling of offer proposed and how we better engage residents and visitors in participation of physical activity.
- 43 Swimming income is below the SENBS average and, whilst our general swim and learn to swim performance is improving, there is scope to significantly improve in this area.

### *Local spend*

- 44 The 2019/20 budget for delivering services across the fourteen leisure centres is £5,300,581. This consists of an income budget of £7,808,029 and a gross expenditure £13,106,610.
- 45 Repairs and maintenance budgets are managed separately as part of a much wider Facilities Management budget. The actual cost of maintaining the leisure centres over the last five years was:

<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>
£840,502	£576,215	£607,881	£521,483	£571,986

- 46 When these costs are combined, and assuming 2019/20 R&M costs remain at 2018/19 levels, the overall expenditure of the service increases to £13,947,112 giving a net cost for the service of £6,139,083.

### *Complex operating model governance*

- 47 Despite a programme of harmonisation projects since Local Government Review there remain three different operating models across the 15 leisure centres; these are:

- (a) direct DCC management;
- (b) DCC Managed with Fitness income share partner;
- (c) managed via a contract.

Direct DCC management	DCC with income share partner	Managed Via contract
Abbey	Freemans Quay	Peterlee
Chester-le-Street	Newton Aycliffe	Seaham
Consett	Sildon	
Meadowfield	Spennymoor	
Woodhouse Close	Wolsingham	
Riverside	The Louisa Centre	
	Teesdale	

- 48 The above table shows which centres fall into each category of management. The income share partner, Competition Line UK (CLUK), has agreements in place from pre-LGR, and which vary in length; the Freemans Quay agreement is due to end in the 2028/29 financial year, the Louisa Centre in 2024/25 and the others in 2025/26.
- 49 The two sites managed via contract are currently managed by 1Life which is contracted to operate the centres until 31 March 2022.
- 50 In conclusion we have a mix of operating models, the majority of the stock is old and requires investment. This project provides an opportunity to invest and invigorate a new exciting offer for residents with DCC taking firm leadership of this transformation. The alternative would be a managed decline of our leisure centre provision.

#### *Considering a Future Leisure Offer – work to date*

- 51 In order to robustly assess the benefits and impact of a transformed leisure centre offer, Alliance Leisure Services (ALS) a leading industry specialist in leisure transformation was procured through the OJEU compliant UK Leisure Framework (see Appendix 7). The reports produced by ALS are commercially sensitive and are included in a separate report in part B of the agenda for this meeting of Cabinet.

- 52 Through this arrangement a two phased approach was agreed which gives consideration to:

### **Phase 1**

- (a) reviewing our existing provision and performance, the national and local strategic context and assessing the catchment for each centre;
- (b) assessing the market for existing and potentially new activities to determine likely/potential demand and social value impact, essentially determining a new activity mix/offer.

### **Phase 2**

- (a) considering the required investment in facilities required to ensure that the identified demand can be realised;
- (b) gaining an understanding of the wider implications of undertaking the changes, including revenue and business planning.

- 53 Effective transformation requires us to fully understand not only where we are today, our current performance and core users, but also to understand our potential users, the demographics and resident profiles of our communities for each facility. By starting to gather this information we now understand the types of activities that will best deliver the outcomes for this project on a centre by centre basis and further work will be done on understanding how we can maximise health impact and reduce health and wellbeing inequalities both in uptake of use and increasing physical activity levels.
- 54 This knowledge allows the consideration of a new facility mix by ensuring capital investments are made in areas that will have the greatest impact.
- 55 The initial phase 1 market assessment work identified the opportunity to introduce new activities and enhance and grow existing ones. The work included a region wide competition analysis; studying the demographics of each facility catchment, along with mosaic profiling, and utilising the leisure data hub to establish the latent demand for specific activities.
- 56 From a strategic context there is an oversupply of sports halls within the county and unmet demand for swimming; this was evidenced within the Sport England Facility Planning work undertaken in phase 1. (See Appendix 6). The Football Association, Local Football Facilities

Plan (LFFP) (Appendix 8) identifies a shortfall of ten artificial grass pitches. This project will seek to address some of these issues.

- 57 The outcome of phase 1 was reported to Transformation Programme Board in March 2019 and it was approved to progress phase 2 work with 11 of the 14 centres within the initial scope. Wolsingham has been added into the scope of this project following the Cabinet decision on 13 November 2019, in relation to the school joining the Advanced Learning Partnership.
- 58 10 of the 11 facilities are included in the work being undertaken with ALS, whilst the eleventh, Riverside Sports Pavilion, was approved to develop in partnership by working with Durham County Football Association (DCFA).
- 59 However, as the initial phase 1 work also identified some opportunities to grow participation at the three remaining centres and the Council wishes to transform all of its leisure centres, all 14 with the inclusion of Wolsingham are within the scope of the project and the recommendations of this report.
- 60 Having established the need for a new offer and an understanding of what that offer should provide, phase 2 work was undertaken to explore how the facilities could be changed to accommodate the new mix of activities. Concept designs have been developed to provide outline capital costs along with an understanding of how the introduction of new activities will impact upon existing provision.
- 61 Revenue business plans based upon the assumptions of all of the previous work have now been developed and are to be considered in part B. This work allows us to make assumptions on the future revenue requirements, both income and expenditure, any movement in social value and changes to staffing requirements post transformation. This can then be considered alongside the capital investment required to transform the centres, providing the Council with significant assurance regarding any capital investment decisions and the return on those investments.

### *Proposed New Leisure Centre Offer*

- 62 Having undertaken the above it is proposed that a programme of work be undertaken that essentially seeks to introduce new activities, enhance existing activities and standards as well as repositioning some services across the county; these are comprised of:
- (a) the introduction of a range of new activities targeted towards specific audiences. The activities have been market tested and

subjected to competition and catchment analysis to ensure they reach the targeted audiences;

(b) enhancing the offer across a range of existing activities including swimming, gym and class programmes:

- meeting the unmet demand for swimming by creating additional water space;
- providing additional artificial grass playing pitches;
- improving the leisure pool offer with additional features;
- developing new fitness suites with the latest equipment that meet the demands of today's market;
- increasing and improving the exercise class programme;

(c) Raising service standard and quality across the offer:

- introduce the 'Thrive Branding' themes and values at all leisure centres;
- move to a single operating model for all leisure centres ensuring consistent standards;
- ensure maintenance programmes and budgets are in place to maintain the standards.

63 In order to realise this offer will require a programme of investment that will deliver a mix of new leisure centres, refurbishment and refreshing existing centres, new partnerships with DCFA and the early termination of the income share agreements to enable a move to a single operating model.

64 Introducing new activities and changing the offer at five leisure centres at Abbey, Louisa Centre, Freemans Quay, Peterlee and Spennymoor:

- (a) the work has identified the opportunity to change and/or add to the offer at these sites by developing within the existing building. The cost of adapting these centres to accommodate the new offer provides a significant return against the investment. The buildings are in a good condition and can accommodate the new activities;
- (b) the £9.5 million required to introduce new activities includes the costs of building adaptations along with the installation of all

equipment. This work can be progressed quickly as there are few or no planning issues;

- (c) however, four of the five sites are managed under income share or contract arrangements and this will impact upon programming work.

65 Refreshing the existing offer at four leisure centres at Consett, Newton Aycliffe, Wolsingham and Teesdale:

- (a) these centres have a limited opportunity to improve the revenue position and grow social value by providing new activities. However, there is scope to improve the offer by raising the standards and developing new programmes for existing activities that can meet customer expectations;
- (b) as Consett is a new site and Newton Aycliffe has undergone considerable refurbishment, the majority of this work is at Wolsingham and Teesdale and would require bringing forward any capitalised maintenance work and introducing the 'Thrive' branding.

66 The replacement of three existing leisure centres in Bishop Auckland, Chester-le-Street and Seaham:

- (a) the feasibility research undertaken to date suggests that we explore the potential for New Build Opportunities at Chester-le-Street, Seaham and Woodhouse Close. The work has identified a number of new activities at these centres that would increase the measure for health, wellbeing, social value and reduce revenue costs. However, the age, condition and footprints of the existing building bring into question the transformation of the offer at these centres by refurbishing existing buildings.
- (b) the following sets out the various options for consideration before presenting a new build proposal for the three areas. These proposals will require further consideration as the process moves forward. To understand the options and potential costs involved, ALS have provided options. The options are based on the following three models:
  - Core+ 1, a 2,300 sq m wet and dry facility estimated cost £14.8 million and comprising of:
    - a. 25 metre 6 lane pool;
    - b. Learner Pool;

- c. Wet Change;
  - d. Café/reception;
  - e. Dry Change;
  - f. Fitness Suite;
  - g. Studios;
  - h. Spectator Seating;
- Core+ 2 a 3,600 sq m wet and dry facility estimated cost £16 million and comprising of all of the above plus:
    - a. 4 court sports hall with associated storage (this space would be utilised to accommodate the new activities, alternatively additional space can be added in addition to the sports hall);
  - Pool & Health Club model 1,300 sq m estimated cost £6.5 million comprising of:
    - a. 25 metre 6 lane pool;
    - b. Wet Change;
    - c. Reception & Admin;
    - d. Dry Change;
    - e. Fitness Suite;
    - f. Studio;
    - g. Spectator Seating;
- (c) the current anticipated budget for new build replacement is £39 million based upon two Core + 2 centres and one Pool & Health Club model. Further consideration also needs to be given to the potential wider economic benefit, costs could rise when taking into consideration regeneration priorities, land issues, build standards such as BREEAM and the inclusion of other services, i.e. co-location and One Public Estate considerations. A capital bid for £48 million has therefore been submitted.
- (d) initial consideration has been given to potential sites and these require further feasibility and full health impact assessments

(HIA) undertaken to understand how to maximise health gain and reach for residents and visitors, prior to consultation. Both Woodhouse Close and Seaham are currently located in areas of high deprivation and physical inactivity, therefore their existing location places them in an area in which they can have a greater impact on social value measures thus significantly working to address unacceptable health inequalities;

- (e) the report recommendation for advancing the feasibility and HIA for these three sites will allow costs to be explored further and the consideration of wider outcomes such as regeneration and tourism opportunities at Seaham in particular;
  - (f) the advanced feasibility will be completed by April 2020, and a further report would be presented prior to commitment to develop new build options further.
- 67 Improving the quality of provision and realigning with other services - projects at two of the leisure centres at Meadowfield and Shildon.
- 68 A Development Partnership at one leisure centre:
- (a) Durham County Football Association (DCFA) has expressed an interest in developing the Riverside site in partnership with the Council. Work is ongoing with DCFA, Durham County Cricket Club, Park View Academy and the Football Foundation to further establish the feasibility of this proposal;
  - (b) DCFA have undertaken feasibility on the construction elements of the project and have an outline costing of £4.8 million, they are seeking £2 million in match funding from the Council. Further work is required to establish the sustainability of the proposals as well as the wider community benefit and financial revenue benefit of the project;
  - (c) the proposal includes the construction of two new artificial grass pitches which will assist in the delivery of both the Local Football Facilities Plan (LFFP) and the Durham County Playing Pitch Strategy (PPS).
- 69 A move to a single operating model at all leisure centres:
- (a) the early termination of Competition Line income share agreements is a key enabling factor in progressing with this work, moving to a single operating model and meeting revenue savings;

- (b) the arrangements with 1Life would remain in place until the contract expires in March 2022.

### *Impact of a transformed leisure centre offer*

- 70 The measure of success for this project will be the improved health and wellbeing outcomes for County Durham, in particular an increase in physical activity and a reducing in the inequalities across age, gender, ethnicity and social gradient together with a reduction in revenue subsidy. In order to make decisions regarding future capital investments it is important to understand the impacts transformation will have on these measures in comparison with the levels of investment.
- 71 The Alliance Leisure work outlined in section 50 above has provided both a baseline and projected analysis on the social value, capital costs and revenue implications for the 10 centres that are proposed for significant investment by either replacement, the introduction of new activities and repositioning of services.

### *Social Value Outcomes*

- 72 The social value report (Appendix 5) outlines the current social value across the 10 centres that have undergone both phases of the ALS work at £22,798,858.
- 73 By applying the assumptions that have been developed through the process, it has been calculated that the social value would grow by £8,618,266 if the transformation as proposed is delivered. This represents an increase of 38%.
- 74 The assumed future social value for the 10 centres broken down into the 4 categories is:

• Improved subject-wellbeing	£23,295,330
• Improved health	£ 6,880,411
• Increased educational attainment	£ 1,219,067
• Reduction in crime	£ 33,316
Total	£31,427,124

### **Financial Requirements**

- 75 The table below provides a summary of the capital and revenue investment required to transform the leisure offer. All costs at this stage are based upon either Gross Internal Floor Area (GIFA) calculations or a cost comparison with similar projects. The total

capital investment is up to £62.8 million with circa £48 million of this relating to the three new builds.

76 The significant investment will increase costs in the centres by £2.127 million. At the same time additional annual income of £3.762 million is expected to be generated resulting in a net overall saving of £1.63 million. This revenue saving could be utilised to finance £38 million of prudential borrowing thus reducing the overall requirement for capital financing from the MTFP to £24.8 million.

77 It is to be noted that these figures are representative at the time of this report, and that inflationary elements will apply at the time of construction. These will be offset, in part, by the increased RPI within the revenue business plans. With reference to new build options the cost of demolition of the existing site has not been considered.

<b>Category and facilities</b>	<b>Capital investment</b>
<b>Replace existing facilities</b> Chester-le-Street Seaham Woodhouse Close	Up to £48,000,000
<b>Introducing new activities and changing the offer</b> Abbey Louisa Peterlee Freemans Quay Spennymoor	£9,510,000
<b>Refreshing the existing offer</b> Consett Newton Aycliffe Wolsingham Teesdale	£500,000
<b>Reposition Services</b> Meadowfield Shildon	£2,810,000
<b>Develop under partnership</b> Riverside	£2,000,000
<b>TOTAL CAPITAL</b>	<b>£62,820,000</b>

78 The revenue assumptions are predicated on the growth in both income and expenditure from the delivery of new and enhanced activities. The new build advanced feasibility work will allow the potential for further growth to be explored and therefore the revenue implications within this report are considered prudent.

## *VAT Partial Exemption*

- 79 Local authorities are able to recover all of the net VAT incurred as part of its activities. There are areas of activity however where the Council may have opted not to tax certain income activities and exempted itself from the need to charge VAT. The VAT foregone in these areas or the VAT received from any capital expenditure in such areas contributes to the Council's Partial Exemption calculation. As long as this sum is below 5% of total VAT incurred the Council does not incur any costs.
- 80 If an authority breaches the 5% limit in any individual year they are able seek dispensation from HMRC to utilise a seven year average figure. If this average is below 5% then this is allowable.
- 81 The Council made the decision as part of MTFP(9) to benefit from the ability to no longer charge VAT on income in leisure centres. This generated a £0.6 million MTFP saving. The VAT foregone in this area and any capital expenditure on leisure centres must be included in the Partial Exemption calculation.
- 82 The Council is presently recovering VAT on behalf of the £20 million Remaking Beamish capital development which has placed significant pressure upon the 5% Partial Exemption limit. This pressure will be heightened if the Council invests up to £62.8million capital in leisure centres whilst also generating additional exempt income.
- 83 The Council's tax advisors, Ernst Young, have analysed the Council's forecast partial exemption position based upon the projected capital investment and services to be provided. It is forecast that the Council will breach the 5% partial exemption limit in a number of years. The analysis has indicated however the Council will not breach the 7 year average position. In this circumstance the Council will need to seek approval from the HMRC in terms of utilising this dispensation.

## **Other Considerations**

- 84 The business planning assumptions have also looked at the staffing levels and operating hours of the current provision. The proposed new activities will create an additional 33.29 full time equivalent posts and require the development of new skills within our workforce.
- 85 The transformation project sets out significant changes to the current provision; this will not be achievable without significant disruption to services whilst the transformation work takes place. Financially this will impact upon income as old activities are lost whilst new ones are created. Local consultation events will also take place to engage with current users, local residents and members to mitigate any disruption and help shape the proposals.

## Next steps

86 The next steps within the project are:

- (a) complete further advanced feasibility work and health impact assessment on the three proposed new leisure centres, to assess the size, cost, additional benefits and location reporting back to Transformation Programme Board April 2020;
- (b) commission Alliance Leisure under the existing UK Leisure Framework procurement route to progress the development of the 5 centres within the 'Introduce new activities and change to offer' facility group through to cost confidence. Health equity audits (HEA) will be undertaken on these to understand our current demographic from an inequalities perspective and then a re-audit in three years' time to determine if we are actively attracting the right people into our centres;
- (c) complete the feasibility work with DCFA with regard to the Riverside and report back to Transformation Programme Board March 2020;
- (d) develop a programme of works which can deliver transformation timely and will draw down capital investments within a managed financial process;
- (e) undertake negotiations with Competition Line UK with regards to an early termination of the income share agreements;
- (f) meet with AAPs to consult in more detail on the transformation project and the impacts with a view to further consider the local context;
- (g) undertake local engagement events targeted at residents and current users to help shape the proposals.

87 Before progressing with the next steps Members are asked to be mindful of the potential costs and benefits of this project. Whilst there are substantial gains in health, wellbeing, social value, working to reduce inequalities, as well as net revenue savings and employment growth, the financial benefits are significantly reduced when the cost of borrowing is taken into consideration. However, taken in totality this is an invest to save model and will radically improve the leisure centre offer for residents as well as provide a vibrant leisure economy for visitors.

88 Whilst moving through the next stages will require further cost in developing more detailed design and costing, these costs are not

additional as they would form part of any design and build process.  
They only become a risk should the project or any part of it be aborted.

### **Background papers**

- National Active Lives survey 2017/18.

### **Other useful documents**

- None.

### **Authors**

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## **Appendix 1: Implications**

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### **Legal Implications**

The Council has the power under s19 of the Local Government (Miscellaneous Provisions) Act 1976 to provide, and charge for, such recreational facilities as are outlined within the report. Local leisure facilities are not generally thought to distort trade between member states and therefore there are unlikely to be any State Aid implications from this proposed investment.

### **Finance**

The report identifies a need for up to £62.8 million of capital investment. The capital investment is forecast to generate a net annual saving of £1.63 million. It is recommended that this sum is utilised to prudentially borrow £38 million to assist in funding the capital.

Discussions will be required with HMRC to agree to the utilisation of the seven year average dispensation on the Partial Exemption Limit.

### **Consultation**

Local consultation events will be held with members, AAPs, service users and residents as part of the next phase of this transformation programme.

### **Equality and Diversity / Public Sector Equality Duty**

The investment outlined within this report will have a positive impact on the council equal opportunities duty. Individual Equality Impact assessments will be undertaken alongside Health Impact assessments as and where necessary.

### **Climate Change**

Refurbishments and new builds would be to new environmental standards.

### **Human Rights**

None.

### **Crime and Disorder**

The programme will have a positive impact upon crime and disorder as outlined within the Social Value impact of the report.

**Staffing**

Increased 33.29 FTE.

**Accommodation**

None.

**Risk**

There are risks with any invest to save project, this has been mitigated by procuring the services of a leisure transformation specialist to work on this programme. The risks are further mitigated by the partners' agreement to work with the Council until the business assumptions are achieved, this would be at the partners cost and it is for this reason that the assumed figures are prudent and achievable.

**Procurement**

All procurement in relation to this transformation programme will be undertaken under the Councils Contract Procurement Rules.

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## **Appendix 2: UK Active Physical Activity Report**

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See attached document.

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**Appendix 3: Sport England - Active Lives Adult Survey Nov  
17/18**

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See attached presentation slide 13 and attached spreadsheet tab 5.

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## **Appendix 4: ALS Durham – Stage 2 Condition Review Costs**

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The attached appendix provides an overview of the current condition survey costs for the leisure centres.

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## **Appendix 5: Durham County Council Social Value Report**

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The attached report which has been commissioned independently to the Alliance work provides the social value measure for the current and proposed provision.

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## **Appendix 6: Sport England Facilities Planning Model Report**

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Provides an overview of the UK Leisure Procurement Framework.

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## **Appendix 7: UK Leisure Framework**

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The attached file includes the report and appendices.

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## **Appendix 8: Local Football Facilities Plan**

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Attached file is the plan.