

DURHAM COUNTY COUNCIL

SPECIAL JOINT ENVIRONMENT AND SUSTAINABLE COMMUNITIES OVERVIEW AND SCRUTINY COMMITTEE AND ECONOMY AND ENTERPRISE OVERVIEW AND SCRUTINY COMMITTEE

At a **Special Joint Meeting** of the **Environment and Sustainable Communities Overview and Scrutiny Committee** and the **Economy and Enterprise Overview and Scrutiny Committee** held in the **Council Chamber, County Hall, Durham** on **Monday 23 September 2024** at **1.00 pm**.

Present:

Councillor B Coult in the Chair

Members of the Committee:

Councillors P Atkinson, A Batey, L Brown, R Crute, D Freeman, P Heaviside, G Hutchinson, C Lines, B Moist, D Nicholls, D Oliver, R Ormerod, J Purvis, A Simpson, M Stead, D Sutton-Lloyd and S Zair (Vice-Chair).

Co-opted Members:

Mrs R Morris and Mr E Simons.

Also present:

Councillors C Hunt and J Rowlandson.

1 Apologies

Apologies were received from Councillors E Adam, G Binney, M Currah, A Surtees and S Townsend.

2 Substitute Members

No substitute members were present.

3 Declarations of Interest

There were no declarations of interest.

4 Any items from Co-opted Members or Interested Parties

There were no items reported from co-opted members or interested parties.

5 Leisure Transformation Programme – Update

The Committee considered a report and presentation of the Corporate Director of Regeneration, Economy and Growth which provided a summary of the Leisure Transformation programme to date (for copy of report and presentation see file of minutes).

The Committee welcomed Amy Harhoff, Corporate Director of Regeneration, Economy and Growth to introduce the presentation. Providing background to the report, the Corporate Director of Regeneration, Economy and Growth explained that, in January 2020, the Cabinet approved an ambitious leisure transformation programme and at that stage, an in-principle agreement was made for capital investment of £62.8 million, with £38 million of the investment to be funded on a self-financing basis. It was anticipated that the remaining £24.8 million would be funded based on further prudential borrowing, which would be drawn down as part of future annual Medium Term Financial Planning (MTFP) processes.

The Cabinet considered an update report on the programme in March 2021 and the report also sought approval of the preferred sites for new build leisure centres at Seaham, Chester le Street and Bishop Auckland. The revised forecast for the capital cost of the programme had increased by £15.4 million to £78.2 million, with £38 million to be funded on a self-financing basis and the remaining £40.2 million to be financed through future budgets. The report noted concerns regarding the impact of the planned level of investment on the Council's VAT partial exemption position.

The Corporate Director of Regeneration, Economy and Growth informed the Committee that factors including extraordinary inflationary pressures since 2021 and the increased cost of borrowing meant that current forecast costs to deliver the programme far exceeded the figures previously agreed and the Council would now need to spend approximately £109.2 million to deliver the original aspirations of the leisure transformation programme. The Corporate Director highlighted the primary driver for the Council in delivering the discretionary service of leisure was social benefit and that the Council recognised the valuable contribution made by leisure to the health and wellbeing of residents. The Committee noted that the delivery of leisure services was also a significant cost to the Council's revenue budget.

The Corporate Director of Regeneration, Economy and Growth pointed out that the Council's VAT partial exemption position was a material consideration in programming and investment decisions between March 2021 and March 2023. Prior to Christmas 2023, the broader public finance situation worsened, therefore a decision was taken to pause further capital investment in the leisure programme, with the exception of £10 million capital budget provision as part of MTFP(14) to safeguard the current buildings at Seaham and Chester le Street leisure centres.

The Committee welcomed Alison Clark, Head of Culture, Sport and Tourism to present information on the wider leisure market context. The Head of Culture, Sport and Tourism informed the Committee that, following the Covid-19 pandemic, many local authorities returned to in-house led models of operation as many external operators had failed to maintain services. The Head of Culture, Sport and Tourism highlighted that County Durham's 15 leisure centres were operated by the Council and competition from private sector fitness providers had increased following the pandemic. The Council's offer, with its holistic approach, had wider market appeal.

The Committee then welcomed Rob Davisworth, Head of Corporate Finance and Commercial Services, to provide detail on the financial position. The Head of Corporate Finance and Commercial Services referred to the challenging financial position which had further deteriorated since the 2024/25 budget was approved in February 2024. The current MTFP forecast revealed a funding gap of approximately £64.1 million across the next four years. The worsening assumptions related to increases in the cost of services, including those relating to social care provision and special educational needs and the increased cost of borrowing in respect of the capital programme.

The Committee heard that the £62.2 million budget for leisure was predominantly funded through borrowing and whilst some borrowing would be matched by increased income, that would take time to come to fruition. In addition, the net revenue budget for leisure services in 2024/25 was £8.3 million which had been increased by £1 million in 2024/25 as part of MTFP(14). However, in the current year, there was a forecast budget gap of £1.3 million which further demonstrated the challenges of delivering the current leisure services, within the wider budgetary pressures.

The Head of Corporate Finance and Commercial Services provided information on the current funded programme budget and an overview of budget setting which showed the current forecast to meet the original aspirations of the leisure transformation programme was £109.2 million, with additional borrowing of approximately £46 million and additional borrowing costs amounting to £2.5 million.

The Committee received clarification on the Council's VAT partial exemption position which was a factor in decision making during the initial stages of the programme, when options were being considered for the new build schemes. The Head of Corporate Finance and Commercial Services explained that, at that time, most leisure income was classed as exempt, therefore the VAT recovered on the running costs and any capital investment in leisure centres, formed part of the Council's calculations for partial exemption. Furthermore, if the threshold of the Council's overall VAT claim for input tax related to the provision of services which were classed as exempt from VAT, the Council would be required to repay approximately £14 million in previously reclaimed VAT. Therefore, a proactive decision was taken to phase the leisure transformation programme over a number of years, to minimise the risk of breaching the threshold.

A subsequent legal case changed the status of most leisure income which resulted in VAT on leisure capital expenditure falling outside the partial exemption calculation. In March 2023, HMRC revised its guidance and the VAT issue no longer posed a financial risk to the Council.

The Head of Culture, Sport and Tourism spoke of a number of factors which had influenced the progress of the plans, including design development and the ability to secure external funding, as well as the VAT partial exemption issue. The Committee noted that the current committed programme would achieve one new build facility, five regenerated / refurbished sites and two sites would be safeguarded until affordable schemes could be achieved. The Head of Culture, Sport and Tourism reiterated that the key aims of the programme included the promotion of health and wellbeing and the tackling of health inequalities throughout the county.

The Committee noted that leisure centres were some of the Council's highest carbon emitters and the Head of Culture, Sport and Tourism outlined how the leisure programme had contributed to the Council's Climate Emergency Plan through introducing measures such as the installation of solar PV, LED lighting and heat decarbonisation schemes.

In terms of performance, the Head of Culture, Sport and Tourism reported that transformed sites were receiving positive feedback, with an increase in use by families, older people and those at an introductory level. Whilst sales and income were performing well, achieving the income forecast was proving challenging due to cost pressures and increased staffing requirements as new products and services were introduced.

The Committee heard that estimated costs of the new facilities at Seaham and Chester le Street had increased from approximately £32 million in 2020 to approximately £53 million. Referring to the £10 million capital budget provision as part of MTFP(14) which had been allocated to safeguard the current buildings at Seaham and Chester le Street leisure centres, the Head of Culture, Sport and Tourism explained that due to the age and condition of the buildings, a decision was taken to ringfence the money for essential works in order to maintain operations.

The Corporate Director of Regeneration, Economy and Growth concluded the presentation, summarising key points. She commented that it was disappointing that the full project was not being delivered as originally anticipated, however, it should be noted that Durham had committed £62 million in leisure facilities and the commitment to invest such a significant sum in leisure in the current financial climate meant that Durham was an exception. The Corporate Director reiterated that the current estimate to deliver the original plan was approximately £109 million and the Council continued to provide revenue support to leisure services of over £8million. The Corporate Director of Regeneration, Economy and Growth thanked the Committee for their time in allowing the officers to deliver the presentation, in detail.

The Chair thanked the officers for the comprehensive presentation and comments and questions were invited.

Councillor Moist, thanked the officers for the comprehensive and detailed report and commented that it was difficult to be concise in relation to questions as there was a great deal of detail in the report and presentation. He then referred to the original capital cost of the programme in March 2021, which was approximately £78.2 million and he questioned whether the Council had underfunded the project, at that time, by allocating only £38 million. Councillor Moist then highlighted paragraph 11 of the report which detailed that the March 2021 Cabinet report raised concerns regarding the Council's VAT partial exemption position and he then made reference to paragraph 13, which stated there was no issue. Councillor Moist stated that during meetings held at that time, he repeatedly requested that HMRC be contacted, to seek clarification on the issue.

Councillor Moist also commented that during meetings of the joint administration in early 2023, members were assured that all contingencies had been discussed, in relation to the new build at Chester le Street. He added that, in his view, the site was relatively straightforward, with no constraints and he asked why the new build at Chester le Street had not been progressed early in the programme and whether a delivery strategy had been put in place for the programme. Councillor Moist also drew the Committee's attention to the report which stated that it could reasonably be estimated that across County Durham, £56 million could be saved annually, across the local economy, if people were more physically active. He concluded by asking whether the residents of County Durham were being failed.

The Corporate Director of Regeneration, Economy and Growth reiterated the Council had committed to fund the original investment, however, the financial position the Council now found itself in was far more challenging than the position in 2020.

The Head of Corporate Finance and Commercial Services explained the programme was funded by borrowing and the Council was required to ensure the amounts borrowed to fund capital programmes were prudent and affordable. When embarking on the programme, it was anticipated that the programme would be factored into the capital programme over future MTFP periods. Clarifying the VAT partial exemption position, the Head of Corporate Finance and Commercial Services noted that the March 2021 Cabinet report raised concern that the issue could have resulted in the Council having to repay a substantial amount in previously reclaimed VAT to HMRC. The issue, therefore, was a consideration in decisions on investment and delivery of the programme.

The Head of Corporate Property and Land, Susan Robinson, provided details of some of the influencing factors on costs since the original plans were approved by Cabinet in January 2020. These included that hyper-inflation during the Covid-19 pandemic led to volatility in the construction market which had continued. Site investigations revealed some site conditions were worse than anticipated and some infrastructure required replacement as opposed to repair. In addition, some sites were constrained which led to increased costs. There had also been work carried out to ensure centres could remain open as long as possible, whilst refurbishments took place. In addition, feedback from further public consultation required some plans to be revisited.

Councillor Moist sought further clarification on when the VAT partial exemption position ceased to be an issue and he asked for further information on when the work on the new builds at Chester le Street and Seaham had been scheduled to begin. The Head of Corporate Finance and Commercial Services replied that he would be happy to provide further written information to Councillor Moist and he responded that the VAT position was a national issue until March 2023, when HMRC revised its guidance and at that point, leisure capital expenditure fell outside the partial exemption calculation.

Councillor Purvis, local member for Deneside, thanked officers for the informative presentation. He expressed his disappointment that the proposed new facility at Seaham was not progressing as originally planned. Councillor Purvis referred to the correlation between mental and physical health, commenting that he was aware of research which suggested a high prevalence of poor mental health in coastal areas. He acknowledged the work that had been done in the area to support leisure and engage with community sports groups and he stressed the demand and opportunity for leisure services that existed in Seaham. He added that investment in leisure may lead to savings on costs required to deal with the impact of poor physical and mental health in the future. The Head of Culture, Sport and Tourism responded that demand and opportunities were drivers for Seaham being selected as a site for a new build and a great deal of work had been carried out in an effort to achieve an affordable programme. She assured the Committee that £10 million was ringfenced for essential works to maintain operations at Chester le Street and Seaham.

Councillor Sutton-Lloyd noted the details of the challenging financial landscape set out in the report which reinforced why difficult decisions had to be made and he referred to the long term effects caused by the Covid-19 pandemic. He pointed out that it was, however, important to note that the Council had continued to commit to health and wellbeing by investing in leisure services through the capital programme, despite the challenges.

Councillor Lines acknowledged the Council's efforts to sustain leisure provision in the difficult financial climate and he asked how Durham compared to other local authorities in this regard.

He agreed with Councillor Purvis' comments on the valuable contribution of leisure to health and wellbeing and that investment in leisure may help to address some of the challenges of the Council's statutory responsibilities.

Councillor Lines referred to a special meeting of the Environment and Sustainable Communities Overview and Scrutiny Committee held in December 2023 which provided an update on the Strategic Leisure Framework. The report supported the provision of physical activity programmes led by local people and Councillor Lines asked, in light of the amount of work that had been committed to the leisure transformation programme, whether the Council had continued the work to support local communities to deliver leisure opportunities.

The Corporate Director of Regeneration, Economy and Growth replied that, at a national level, Durham was an exception in the amount of capital investment and ongoing revenue support provided for leisure and members would be aware of national media reports in recent years regarding leisure centre closures and schemes being paused due to financial pressures. The Head of Culture, Sport and Tourism reassured the Committee that the Strategic Leisure Framework work had continued and an update report would be brought to the November meeting of the Environment and Sustainable Communities Overview and Scrutiny Committee.

Councillor Hunt, local member for Woodhouse Close, thanked officers for the report, adding that residents were looking forward to the commencement of the work at Woodhouse Close.

Councillor A Batey, member for Pelton welcomed the long-awaited report and she explained that she was speaking on behalf of colleagues who were unable to attend the meeting due to their attendance at the labour party conference. Speaking as a member for Chester le Street, she expressed disappointment at the current situation, stating her view that the 56,000 residents of Chester le Street were being disadvantaged. Councillor Batey echoed Councillor Moist's comments that there seemed to be no reason why the work at Chester le Street had not started as officers had repeatedly stated that the current site was not fit for purpose. Councillor Batey stated that the ringfencing of £10 million to maintain operations at Seaham and Chester le Street did not inspire her with confidence and she requested a paper from the officers that explained the implications. She acknowledged the significant local concerns and divergence of opinion on the proposals for the Riverside, however, she was of the view that discussions, although difficult, were necessary. Referring to an Area Action Partnership meeting that was due to take place later that day, Councillor Batey requested the service to provide some wording to communicate the current situation to residents.

Speaking as shadow Portfolio Holder, Councillor Batey raised concern at some of the narrative used as to why work had been carried out in some parts of the county and not others. She expressed her support for the 'Move' hub offer and she noted the increase in private sector gyms and she asked whether, if the demand was being met by the private sector, the Council should consider making savings by decreasing its gym provision. Councillor Batey concluded by stating her disappointment at delays in bringing forward a report to Cabinet.

The Corporate Director of Regeneration, Economy and Growth referred to the public engagement exercises which had taken place relating to the Riverside and highlighted that the recent Cabinet report confirmed that work will continue with the community and stakeholders to consider the best approach for the site, in the context of developing a self-financing project. With regard to the ringfenced £10million to maintain operations at Seaham and Chester le Street, it was recommended that the funding should be retained to support sites from a resilience perspective and further information relating to the issue could be emailed to Councillor Batey. Whilst it was planned that a report would be presented at the February meeting of Cabinet, the budget challenges had led to further work being carried out to investigate alternative options. The Council's financial position had further deteriorated since the 2024/25 budget was approved which led to the future investment being revised, however, work had continued.

Councillor Batey clarified that her request for assistance with information to be provided to residents of Chester le Street was that, in light of the previous public consultations, she felt it was appropriate to provide residents with a clear explanation of the current position. The Corporate Director of Regeneration, Economy and Growth agreed to email Councillor Batey with details of the information available on the Council's website and the information would also be shared with the Committee.

Co-opted member Rosemary Morris highlighted that it may be timely to question whether leisure, as a discretionary service, should continue to be funded. Stephen Gwilym, Principal Overview and Scrutiny Officer informed the Committee that the Corporate Overview and Scrutiny Management Board led on budget setting considerations. All members were invited to attend those meetings and a report on the MTFP was to be considered at a Special meeting to be held on 3 October 2024.

Councillor Rowlandson, Portfolio Holder for Resources, Investment and Assets, highlighted the Council's £62.2 million investment in health and wellbeing and he added that the leisure transformation programme continued to be a key area of focus for Cabinet. He confirmed his continued support for the project.

Councillor Moist referred to the £10 million ringfenced for the future of Seaham and Chester le Street leisure centres and he requested clarification as to how the money would be spent and he commented that current provision in Chester le Street comprised of four squash courts and a swimming pool.

The Head of Culture, Sport and Tourism explained that the £10 million was ringfenced for spend, as and when major repairs were needed, to ensure the centres could continue to operate until such time as major projects could be carried out.

Resolved:

Members of the Environment and Sustainable Communities and Economy and Enterprise Overview and Scrutiny Committees noted and commented upon the information contained within the report.