



REDEVELOPMENT OF RIVER PARK LEISURE CENTRE – OPTIONS APPRAISAL

**A
REPORT**

BY



MAY 2015

CONTENTS

	Page
Executive Summary	i
Section 1 – Introduction and Background	1
Section 2 – Project Update	5
Section 3 – Procurement & Management Options	20
Section 4 – Financing and Affordability	36
Section 5 – Conclusions and Way Forward	45

APPENDICES

Appendix A – Stakeholder Consultation Notes

Appendix B – Options Summary

Appendix C – Development and Construction Options

Appendix D – Management Options

Appendix E – Legal Issues (Management Options)

Appendix F – Financial Assumptions

Appendix G – Revenue Projections

- i) Options 1 & 2 including commercial pricing
- ii) Option 3 – 25 metre pool
- iii) Option 4 & 5 – 25 metre pool
- iv) Option 3 – 50 metre pool
- v) Option 4 & 5 – 50 metre pool
- vi) Option 3 – 12 court Sports Hall
- vii) Option 4 & 5 – 12 court Sports Hall

Appendix H – Financial Modelling

EXECUTIVE SUMMARY

Introduction & Background

- 0.1 Winchester City Council (The Council) is currently considering options for the redevelopment of River Park Leisure Centre (RPLC), which is approximately 40 years old and requires essential work in order to remain operational.
- 0.2 The Council has over the last 18 months considered a number of different options and has undertaken a number of studies which has resulted in a Cabinet report (CAB2628) in December 2014 which recommended the following options
- **Option 1** – minimum investment to undertake condition survey works with no significant improvement to the facilities or additional facilities.
 - **Option 2** – refurbishment of the existing facility to provide enhanced facilities, including a new reception and café, extended learner pool and fitness
 - **Option 3** – New build facility on the existing site at North Walls (Option 2 from the Roberts Limbrick Options Appraisal)
 - **Option 4** – New build facility at the Bar End site utilising the old depot and part of the Garrison ground (Option 4 from the Roberts Limbrick Options Appraisal)
 - **Option 5** – New build facility at the Bar End site utilising Council land, Hampshire County Council land and University of Winchester land (Option 5 from the Roberts Limbrick Options Appraisal)
- 0.3 RPT Consulting was appointed to undertake an options appraisal of these five options, in particular the financing and affordability of the options, set out above and also other options, such as consideration of a 50 metre pool option.
- 0.4 The new build options presented above were based on a detailed needs analysis which identified the following facility mix
- Enhanced swimming provision, either through a 10 lane, 25 metre pool with larger learner pool (20 x 10 metres) or through an 8 lane, 50 metre pool, with the 25 metre option being favoured in the report.
 - 8 – 12 badminton court Sports Hall
 - 4 squash courts
 - Increased health and fitness facilities
 - Additional outdoor and indoor facilities, such as Artificial Grass Pitch (AGP), Gymnastics Hall, small sided AGP, should also be considered if funding allows
- 0.5 This options appraisal considers the various issues and includes stakeholder consultation and review, together with financial modelling to present a recommended way forward.

Project Update

- 0.6 As part of the options appraisal work has been undertaken to update and review previous work, which has included the following actions

EXECUTIVE SUMMARY

- Key stakeholder consultation – to assess the current positions and requirements of key stakeholders
- Location analysis – reviewing the two key locations (North Walls and Bar End)
- Legal issues, such as site ownership and the existing contract with Places for People Leisure (PfPL)
- Existing budget review – to understand the current costs of the existing facility
- Pricing review – to assess the potential for utilising more commercial pricing to improve the net return to the Council
- Capital cost review – an analysis of similar facilities and the capital cost of other facilities

0.7 As a result of this work there are a number of issues which should be considered for the future options, which include

- There is the potential to bring in external funding from key stakeholders towards a redeveloped facility, particularly from the University of Winchester (£6 million) and the Pinder Trust (£1 million), with the most significant level of funding being only available for the Bar End options.
- Key stakeholders in general are more supportive of a redevelopment of a new facility at Bar End as opposed to a redevelopment on the existing site.
- The Bar End location is likely to bring a number of advantages over the existing site for any redevelopment, including
 - The potential to attract greater funding
 - Better access from a broader catchment area
 - Potential for future growth in terms of facility development

There will however be a need to ensure that the land ownership issues are addressed and also recognising it is not as accessible from the city centre.

- The facility mix presented in the Roberts Limbrick feasibility study for any new facility, as well as delivering on the needs identified in previous studies, meets the aims of the key stakeholders, in particular
 - The University who are seeking a sports hall, and space for teaching and the sport and exercise science department. The provision of a swimming pool would also add value
 - The Pinder Trust who wish to have a hydrotherapy pool
 - The ASA who have not identified the need for a 50 metre pool, but do identify that there is the potential for a 10 lane 25 metre pool not to be as practical as a 50 metre pool.

It should however be recognised that there are some areas where stakeholders are keen to see the facility mix enhanced, including

EXECUTIVE SUMMARY

- The development of a 50 metre pool, which is a key focus from Winchester Sport and Leisure Trust (SALT) in respect of the Fit for the Future project, however is not a key requirement from other stakeholders
 - The development of a 12 court Sports Hall, which would be desirable for the University and has been identified by SALT
 - Additionally we understand that there has been some need identified for trampolining and gymnastics.
- The redevelopment of facilities at Bar End would enable the Council to break the contract with PfPL having followed due process if they so wished.
 - The capital costs presented in the Roberts Limbrick feasibility study are broadly in line with current developments in the market and include the demolition of the existing facility, thus the Council can have confidence the facility can be delivered for the levels of capital identified.

0.8 These issues have been used to inform the procurement options, financial analysis and overall recommendations.

Financial Implications

0.9 We summarise the costs and financial implications of each of the core options in the table below, including the Net Present Value (NPV) for each of the options.

Table 0.1 – Financial Summary

	Option 1	Option 2	Option 3	Option 4	Option 5
Capital Analysis (£'m)					
Total Capital Cost	4.19	6.01	27.586	29.19	25.686
Total Funding	4.19	4.19	6.19	10.19	13.19
Net Capital Required	-	1.82	21.396	19.00	12.496
Revenue Analysis (£'000's)					
Net Revenue (year 5)	940	584	387	143	126
Savings on Existing	(176)	180	377	621	638
WCC borrowing (£'m)	-	2.76	5.8	9.55	9.82
Capital Shortfall/ (Surplus) - £'m	-	-	15.60	9.45	2.68
NPV (Borrowing) (£'m)	17.23	15.63	30.18	23.68	16.60
NPV (Capital Reserves) (£'m)	19.24	17.14	35.28	28.53	19.79

EXECUTIVE SUMMARY

0.10 Based on the financial analysis Option 2 (enhanced refurbishment) has the lowest NPV, however this does not provide any significant improvements to the facility mix and leaves little opportunity for further expansion of sports and leisure facilities to meet the needs of the future population.

0.11 Option 5 however is circa £2 million higher in NPV terms than Option 2 but in addition brings with it the delivery of the facility mix identified as required for the future population and also enables there to be the potential for expansion of facilities at the Bar End site in the future.

0.12 There is also the opportunity for Option 5 to use capital receipts from both the depot site and the existing site to support the capital, however we have not factored these into the financial analysis presented above.

Options Compared

0.13 We have compared the various options across a range of different factors which include financial and other aspects and summarise these in the table below.

Table 0.2 – Options Compared

Area	Option 1	Option 2	Option 3	Option 4	Option 5
NPV (£'m)	17.23	15.63	30.18	23.68	16.60
Participation Increase	-1.1%	9.4%	20.8%	29.1%	29.1%
Environmental	X	✓	✓✓	✓✓	✓✓
Stakeholder Need	X	X	X	✓✓	✓✓
Risk Transfer	X	X	✓✓	✓✓	✓✓
Long term Solution	X	X	✓✓	✓✓	✓✓
Future Expansion	X	X	X	✓✓	✓✓

0.14 It can be seen from the table above that Option 5 compares most favourably across the areas, as follows

- Option 5 is the second lowest NPV cost and is lower than the existing cost (option 1)
- Participation increase is significant for Options 4 and 5, with Option 1 and 2 demonstrating either a reduction in participation or relatively modest increase
- The new build options (3, 4 and 5) all have the potential to deliver a more energy efficient building and contribute to the environmental improvements
- Stakeholders have clearly identified Bar End (Options 4 & 5) as the preferred location
- There is greater opportunity to transfer risk under the new build options, and these provide a longer term solution

EXECUTIVE SUMMARY

- Options 4 and 5 do also offer greater opportunities for further expansion of facilities if required

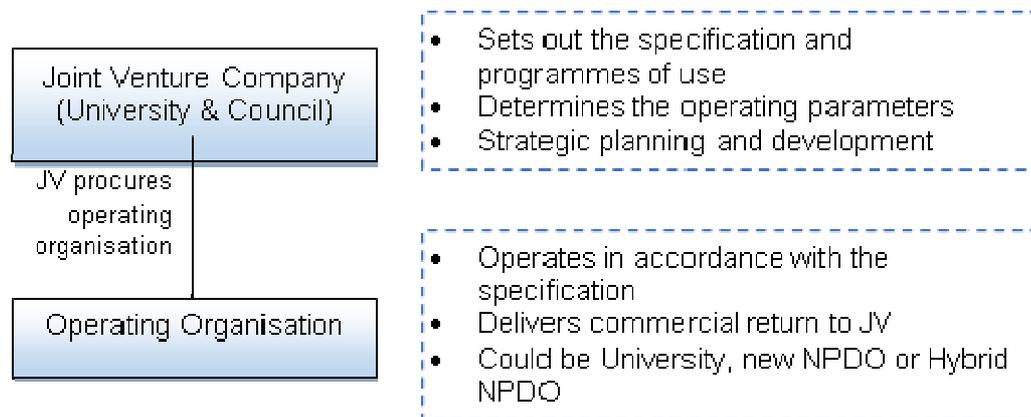
0.15 We therefore **recommend that the Council progress with Option 5 as the preferred option**, with Option 2 as a fall back option if it cannot be delivered.

0.16 It should also be recognised that there are opportunities for additional funding and also opportunities to review the facility mix in more detail as the project progresses.

Governance & Operating Model

0.17 We have identified a number of operating and governance models and recommend that if Option 5 is progressed the Council seek a joint venture with the University as set out below

Figure 0.1 – Future Governance



0.18 This would enable both partners to deliver on their key outcomes.

Way Forward

0.19 If the Council agree with our recommendation to progress with Option 5 as the preferred option then we suggest that the Council commit to work in partnership with the University to deliver the new facility at Bar End, based on the design and facility mix presented.

0.20 However as part of the design development and future delivery, we recommend that the Council and the University commit to the essential core facilities with the opportunity for additional facilities to be brought into the mix, through a long term phased scheme.

0.21 We set out below an outline action plan and timetable for the development of the project over the next 12 months.

EXECUTIVE SUMMARY

Table 0.3 – Action Plan

Key Actions	Timescale
1. Council and University commit to working in partnership and develop heads of terms to cover <ul style="list-style-type: none"> • Facility Mix and Funding Levels • Key access and user requirements • Governance models and future operating approach • Approach to consultation with other key stakeholders 	September – December 2015
2. Explore potential capital receipts from development of the old depot and North Walls site.	September 2015 – March 2016
3. Undertake acquisition of land (such as HCC and/or Tesco land) if required	September 2015 – March 2016
4. Design development based on Option 5, to include consultation with stakeholders and wider public	December 2015 – January 2016
5. Funding Applications and approaches to potential funders to seek confirmation of funding including <ul style="list-style-type: none"> • Pinder Trust • Winchester SALT/Fit 4 the Future • Hampshire County Council • Sport England 	January – March 2016
6. Establishment and procurement of operating partner	July 2016 – July 2017
7. Detailed design ready for construction, to include planning application	March – September 2016
8. Construction commences	September 2016
9. New Centre open	April 2018

0.22 Both the Council and the University are key stakeholders and the major funders of the new facility and as a result if the facility is to be delivered then both partners need to work together and we recommend that the key parameters and principles set out below should be recognised by both partners in developing the partnership

- The new facility should be branded as a partnership between the Council and the University, with both partners being able to present it to the student population and the wider community population. Consideration should be given to the naming of the facility, such as The Winchester Sports Park, which would enable the facility to be promoted and deliver the right approach.
- Governance of the new facility should be by the University and the Council, but recognising that the actual day to day operating model could be delivered in a number of ways, with either a partner or the University operating, but there is a need to ensure that future revenue surpluses are needed to fund some of the initial capital.
- Both parties will have access requirements for students and the wider community which should be built into any governance arrangements.

EXECUTIVE SUMMARY

- Both parties will have a limited amount of capital which should be set out at the beginning of the project to deliver an agreed facility mix, but through the process if more funding becomes available there may be the opportunity to improve the facility mix

0.23 We have identified the opportunity for the Council to progress with Option 5 in developing a new facility at Bar End in partnership with the University which will deliver on the sporting needs and we believe is fundable within the Council's affordability levels and significantly reduces the long term revenue costs.

0.24 The next steps are for the University and the Council to commit to the partnership and deliver an exciting new facility for Winchester.

SECTION 1 – INTRODUCTION AND BACKGROUND

Introduction

- 1.1 Winchester City Council (The Council) is currently considering options for the redevelopment of River Park Leisure Centre (RPLC), which is approximately 40 years old and requires essential work in order to remain operational.
- 1.2 The Council has, over the last 18 months considered a number of different options and has undertaken a number of studies to enable it to narrow down the options, including
 - RPLC Condition Survey Report (WYG Management Services, March 2013)
 - Leisure Centre Provision Feasibility Study (Continuum Sport & Leisure, May 2013)
 - VAT Summary of Leisure Centre Considerations (The VAT Consultancy, January 2014)
 - Winchester Proposed Leisure Centre – Transport Report (Ramboll, July 2014)
 - Winchester Leisure Centre – Outline Facility Brief & Options Appraisal (Roberts Limbrick Architects, September 2014)
 - Business Case Review – New Swimming Provision in Winchester (Continuum Sport & Leisure, October 2014)
 - Cabinet Report CAB2628 (Winchester City Council, December 2014)
- 1.3 Following receipt of the latest report from Roberts Limbrick outlining capital costs and layouts for a number of options, a report (CAB2628) was presented to Cabinet in December 2014, which recommended the Council consider the following options
 - **Option 1** – minimum investment to undertake condition survey works with no significant improvement to the facilities or additional facilities.
 - **Option 2** – refurbishment of the existing facility to provide enhanced facilities, including a new reception and café, extended learner pool and fitness
 - **Option 3** – New build facility on the existing site at North Walls (Option 2 from the Roberts Limbrick Options Appraisal)
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 - **Option 5** – New build facility at the Bar End site utilising Council land, Hampshire County Council land and University of Winchester land (Option 5 from the Roberts Limbrick Options Appraisal)
- 1.4 Following the Cabinet decision to consider these 5 options, the Council appointed RPT Consulting to undertake an options appraisal of these five options, in particular the future financing and affordability of the options, and consider the following issues
 - Income and expenditure projections for each of the options set out above, including consideration of different pricing scenarios, utilising existing prices or through use of more commercial prices

SECTION 1 – INTRODUCTION AND BACKGROUND

- Alternative leisure and sport governance and operating models, taking into account the needs of potential partners, such as the University of Winchester (the University), the Pinder Trust and Hampshire County Council (HCC)
 - Review of capital costs and identification of best practice examples.
 - Financial modelling to establish a Net Present Value (NPV) for each of the options, together with a sensitivity analysis
- 1.5 In particular we also consider other potential facility mix options, which could add value to the overall future commerciality and delivery of the facility, which includes for each of the new development options, consideration of a 50 metre pool option instead of the 25 metre pool.
- 1.6 This report presents the options appraisal and sets out our key findings in the areas identified above.

Background

- 1.7 The previous work already undertaken has established a number of key issues from previous research which has not been repeated in this study, but rather reviewed and updated where appropriate. The key issues include
- The needs analysis undertaken in 2013 through the Leisure Centre Feasibility Study (Continuum Sport & Leisure) suggested that there is a need for an enhanced sport and leisure facility to meet the needs of the future population of Winchester and the wider area, and should include some or all of the following facilities
 - Enhanced swimming provision, either through a 10 lane, 25 metre pool with larger learner pool (20 x 10 metres) or through an 8 lane, 50 metre pool, with the 25 metre option being favoured in the report.
 - 8 – 12 badminton court Sports Hall
 - 4 squash courts
 - Increased health and fitness facilities
 - Additional outdoor and indoor facilities, such as Artificial Grass Pitch (AGP), Gymnastics Hall, small sided AGP, should also be considered if funding allows
 - The condition survey report undertaken suggests significant works are required to simply maintain RPLC and ensure it can continue to operate. It was estimated that in 2013 there is a requirement for circa £3.477 million over the next 10-15 years, however this is only the condition survey works and there is a risk that further works will be required over and above this.
 - The options presented in the Roberts Limbrick report explored a number of different development options, based on a facility mix including the following facilities
 - 25 metre, 10 lane swimming pool, with a 20 metre x 10 metre learner pool
 - Hydrotherapy Pool
 - 8 court Sports Hall

SECTION 1 – INTRODUCTION AND BACKGROUND

- 4 squash courts
 - 180 station health and fitness facilities, including dance studios
 - Depending on the option there is also re-provision of the existing Bowls Hall or AGP (at Bar End) and there is also the potential for an optional Gymnastics Hall (subject to specific funding coming forward).
- The total size of the facility options presented is circa 7,340 square metres. The Roberts Limbrick report also presents a 50 metre pool option.
 - The Bar End options consider two locations, one which is based on the Depot and part of the Garrison land and the other which is on University, Council and HCC land
 - The options presented in the Roberts Limbrick report are indicative designs and as the design is developed further there may be opportunities to consider additional options.

Our Approach

1.8 It is recognised that there has been a significant amount of work undertaken to date in considering the options and as such our approach is structured to ensure that we do not duplicate previous work but consider the outcomes and update the information where relevant.

1.9 In particular our approach includes the following key stages

- Review of previous documentation and site visits to understand the current situation
- Update of key project information, including consultations with key stakeholders and review of existing performance and needs
- Preparation of income and expenditure revenue projections for each of the options
- Development and review of alternative management options to consider the most appropriate operating model for the future development
- Financial appraisal of the options, to include an analysis of the potential funding sources and future costs for the Council

1.10 Throughout the appraisal we will bring examples of best practice from the market and illustrate our work with benchmarking and other examples to ensure the delivery of a robust options appraisal soundly based in the local and national market.

1.11 This report presents the findings of this work and is based on information provided by the Council and following discussions with various stakeholders, in the following sections.

- **Section 2 – Project Update**, revisits the various facility mix options, consultations with key stakeholders and feasibility studies to present an update of the project and key parameters for the options.

SECTION 1 – INTRODUCTION AND BACKGROUND

- **Section 3 – Procurement and Management Options**, reviewing the potential procurement options open to the Council, taking into account the position of Places for People Leisure (PfPL), who currently operate RPLC till 2023. This will include a review of alternative management options
- **Section 4 – Financing and Affordability**, reviews the overall financial implications for the Council (including revenue projections) and assesses the affordability of the various schemes
- **Section 5 – Conclusions and Way Forward**, summarises the key findings and presents a recommended way forward for the Council.

1.12 Should the Council agree with the conclusions and way forward there are a number of actions to progress the project, which have been set out in an outline action plan (Section 5).

SECTION 2 – PROJECT UPDATE

Introduction

2.1 There has been a significant amount of previous work undertaken to look at a range of different options, which has included a detailed needs analysis for the facility mix and demand assessments undertaken. As part of our work we have undertaken further additional work to enable us to review and assess a number of key issues, which include

- Key stakeholder consultation – to assess the current positions and requirements of key stakeholders
- Location analysis – reviewing the two key locations (North Walls and Bar End)
- Legal issues, such as site ownership and the existing contract with Places for People Leisure (PfPL)
- Existing budget review – to understand the current costs of the existing facility
- Pricing review – to assess the potential for utilising more commercial pricing to improve the net return to the Council
- Capital cost review – an analysis of similar facilities and the capital cost of other facilities

2.2 We present in this section a summary of our findings in each of these areas supported by more detailed appendices, where appropriate.

Stakeholder Consultation

2.3 A number of stakeholders have been identified who have a direct interest in the redevelopment of RPLC, through either a local, regional or national position. These include

- University of Winchester
- Hampshire County Council
- The Pinder Trust
- Fit 4 the Future Project/Winchester Sport and Leisure Trust (SALT)
- Sport England
- Amateur Swimming Association

2.4 We set out in the table below the key features and outcomes of the consultation, with notes of the consultation meetings presented as Appendix A.

SECTION 2 – PROJECT UPDATE

Table 2.1 – Consultation Findings

Stakeholder	Key Findings
University of Winchester	<ul style="list-style-type: none"> • The University are keen to invest in new sports facilities at the Bar End site only, to provide competitive sports facilities, which would include <ul style="list-style-type: none"> • Minimum of 8 court Sports Hall, although ideally 12 court • Relocation of the Department of Sport and Exercise Science, to include teaching facilities • The provision of swimming facilities is not a key requirement but would provide additional benefits • A key requirement would be use of the facilities for matches on a Wednesday afternoon from 11am to 7pm as well as use of the facilities for training, although not necessarily free of charge • The University would prefer to operate the new facility and believe they could deliver significant expertise and use of student resources • They have the potential to invest circa £6 million in any new facilities • It will be important that any new facility can be branded as a University facility, in conjunction with other branding (such as Council)
Hampshire County Council	<ul style="list-style-type: none"> • HCC currently own a part of the land at the Bar End site, which has been leased to the new Hampshire Cultural Trust • HCC would not be interested in funding a redevelopment of the existing site, but may be interested in working with the Council to develop a new facility in partnership with the University, which could lead to a Hampshire Institute of Sport.
The Pinder Trust	<ul style="list-style-type: none"> • The Pinder Trust has funds from the sale of the Hydrotherapy Centre in the region of £1.25 million which it is seeking to fund a project or projects to develop hydrotherapy pools. • The RPLC redevelopment project would fit their needs and they would wish it to be available for supporting severely disabled people • They understand the current arrangement of operation and recognise the benefits of operating it as one facility, with economies of scale. • They would be keen to discuss further how they could invest in the project and fund the new Hydrotherapy Pool.

SECTION 2 – PROJECT UPDATE

Stakeholder	Key Findings
Winchester SALT/ Winchester Fit for the Future Project (WFF Project)	<ul style="list-style-type: none"> • WFF project (led by Winchester SALT) is seeking to support the development of new sports facilities for Winchester. The Winchester SALT has been established to support this and they have developed a fundraising plan which is targeting £1 million of funding. • They are keen to work in partnership with key stakeholders to deliver a new sports facility which they believe should be located at the Bar End site • The WFF project’s research and analysis suggests there are 3 core elements provided in the new facility including <ul style="list-style-type: none"> • Aquatic facilities to include a 50 metre, 8 lane community pool with moveable floor and at least one boom. Spectator seating of circa 270 seats • Sports Hall – 3 netball/basketball court facility (or equating to 12-15 badminton courts) – important that has the ability to deliver at least 3 competition standard netball/basketball court sizes • Gymnastics/Trampoline Facility – a dedicated facility which has fixed gymnastics equipment but can be used for other activities, such as party space, crèche and other activities • They would like to see a community and sport orientated operating and governing model, which facilitates local partnerships.
Sport England	<ul style="list-style-type: none"> • Sport England are aware of the potential redevelopment of RPLC and would consider a funding application for a redeveloped facility • It would need to demonstrate increased participation and how the needs are being met. • Typically the average award from the Strategic Facilities Fund has been £1 million but there is the potential to award up to a maximum of £2 million. There is however significant pressure on this fund with circa £35 million being available, but we understand 60 authorities are potentially considering applying. • Once the scheme is firmed up and the option chosen then further discussions with Sport England would be sensible
Amateur Swimming Association	<ul style="list-style-type: none"> • There is not a need for a 50 metre pool from a competition perspective, in that the region is provided for through competition venues • Consideration should be given as to whether a 50 metre 8 lane pool is better than a 25 metre 10 lane pool and learner pool, for example a 10 lane pool is difficult to teach in and if the 50 metre pool has moveable floor then may be better to teach and operate more commercially.

2.5 There are a number of key features from the consultation which will be important to consider in any future option development, including

SECTION 2 – PROJECT UPDATE

- There is a clear preference from key stakeholders for the Bar End site and indeed this site is most likely to bring in external funding (particularly from the University)
- There appears to be a willingness for stakeholders to work in partnership to deliver enhanced sporting facilities for Winchester
- Ideally key stakeholders would like to see a 12 court Sports Hall with a 8 court Sports Hall as a minimum. Swimming facilities are not a key requirement for the University
- A 50 metre pool appears to be preferred by Fit 4 the Future, however this is not necessarily a key requirement for other stakeholders
- Local management and community involvement in the operation of any redeveloped facility is seen as important.

Location Analysis

2.6 There are two principle options which the Council are considering for the location of any redeveloped facility, namely

- North Walls – the existing site, being considered for options 1,2 and 3
- Bar End – located close to the M3, where the existing sports stadium is located, being considered for options 4 and 5.

2.7 There are a number of issues for each site in terms of any redevelopment which need to be considered as set out in the table below.

Table 2.2 – Site Issues

Site	Issues
North Walls	<ul style="list-style-type: none">• Existing site is located at North Walls, so any redevelopment has the potential to mean complete or partial closure of the existing facility during construction• The site is all within the Council's ownership• Any redevelopment may need to reprovide the existing Bowls Hall• The site is a flood plain and there are limited opportunities to expand beyond the footprint of the existing facility
Bar End	<ul style="list-style-type: none">• The site is in multiple ownership, including the Council, Hampshire County Council (leased to the newly formed Hampshire Cultural Trust), University and land owned by Tesco (leased by the Council)• Located out of the city centre – would mean that people in the city centre would be unlikely to walk to the facility

2.8 There has been a transport assessment undertaken to compare both the North Walls and the Bar End site and the advantages and disadvantages are illustrated overleaf

Figure 2.1 – Summary of Transport Issues per site

Table 6 Summary of transport issues per site

Site	Advantages	Disadvantages
North Walls	<ul style="list-style-type: none"> Wide choice of access modes and joined up trips – opportunity for sustainable access Little change in customer travel behaviour – limited impact/change Little change in customer catchment area – known travel options Close to major new residential area – can encourage sustainable access 	<ul style="list-style-type: none"> High car access mode share – choice of mode and joined up trips not currently taken Car trip attracting land-use located in city centre area –adding to congestion Narrow roads within dense residential area – not best suited for access Conflicting parking demand with city centre parking – due to lack of joined up trips
Bar End	<ul style="list-style-type: none"> Close to main roads and M3 - matches high car access mode share Adjacent to National Cycle Route – alternative access option from city centre Options to share park and ride parking capacity – better use of parking resource Wider less busy local roads – better suited for access 	<ul style="list-style-type: none"> Limited choice of access mode – impact will be higher Many existing customers are local to River Park - will need to travel further Reduction in lunch-time use – more customer access during critical network AM peak period Proximity to M3 J10 – need to engage with Highways Agency

Source: Winchester Proposed Leisure Centre – Transport Report (Ramboll, July 2014)

- 2.9 From a transport perspective the key conclusions suggested that both sites offer a mix of advantages and disadvantages and that although North Walls scores better from a transport and access perspective, the picture is not absolute. For example how would a new centre integrate with the nearby Park & Ride sites offering regular bus services to the City Centre.
- 2.10 Whichever site is ultimately chosen then a transport assessment should be undertaken and establishment of a transport strategy will be key for either site. There may also be additional infrastructure costs if the transport study and planning require these.
- 2.11 There are overall a number of advantages and disadvantages for each site which we compare below.

SECTION 2 – PROJECT UPDATE

Table 2.3 – Sites Compared

North Walls	Bar End
<ul style="list-style-type: none"> • Located close to city centre and benefits from lunchtime/daytime use where people can walk to centre • Location in city centre could involve people being put off from driving into city centre at peak times due to traffic in the one way system • The site is very constrained and any new development would be unable to be expanded in the future • Land ownership is totally under the Council's control, thus there are no barriers to developing the site from land ownership • Shares the location with other amenities such as childrens play area, skatepark, rugby pitches, bowls hall and riverside walk 	<ul style="list-style-type: none"> • Located away from city centre, although in distance terms it is not that much further, it is unlikely people would walk to Bar End. • Location close to the M3 is likely to mean that the facility will draw upon a wider catchment area, because it will be easier to access the facility. • There is significant space at Bar End meaning that there is the potential for a phased development over time to deliver additional facilities as needs and funding are realised. • The land ownership sits within a number of different organisations, thus the Council would potentially need to work in partnership with other stakeholders to deliver the facility • Shares location with outdoor facilities such as playing pitches, athletics track and AGP

2.12 We consider the impact of these issues when looking at the financial projections and whether these issues will impact on usage. We anticipate that there is unlikely to be a significant difference in usage (and therefore income) between the two sites as the North Walls site is more likely to attract daytime use, whereas Bar End is likely to draw upon a wider catchment area, due to its location close to the M3.

2.13 Whilst there are advantages and disadvantages of both sites, the proximity of the site to the M3, the ability for future expansion and the fact that the revenue generated is likely to be similar, suggest that the Bar End site would be a preferable option.

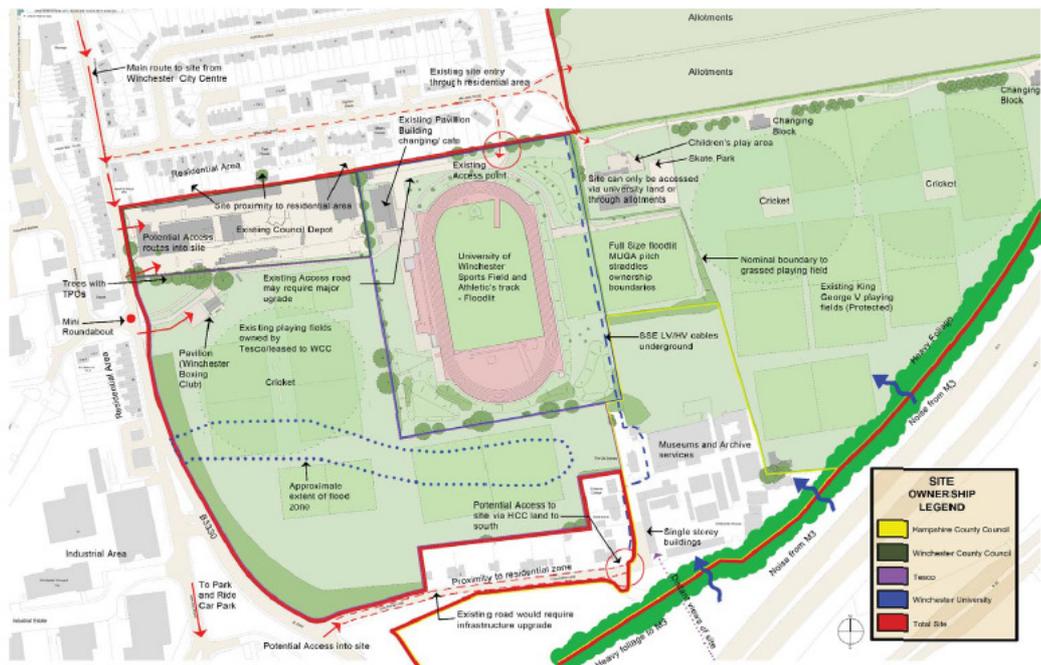
Legal Issues

2.14 There are a number of issues which impact on any future option, which include land ownership and also the existing contract with PfPL.

2.15 Whilst North Walls is solely in the Council's ownership the Bar End site has a number of different land ownerships, as illustrated overleaf

SECTION 2 – PROJECT UPDATE

Figure 2.2 – Land Ownership at Bar End



2.16 There are a number of different ownerships, including the athletics track and surrounds in the ownership of the University and the Council, with HCC land separating the two sets of playing fields, although this is now leased to the Hampshire Cultural Trust. The playing fields to the west of the site are leased by the Council from Tesco. There is also an existing AGP which would need to be re-provided.

2.17 The playing fields to the east of the site are King George V playing fields held in trust.

2.18 The Council has a contract with PfPL to operate RPLC which runs until 31 March 2023, however if RPLC is redeveloped there is a break clause within the contract. Our understanding is that the break clause includes the following, if RPLC is redeveloped as a new facility

- The Council (if it is legally able to) should initially seek to negotiate with PfPL to try and reach a satisfactory agreement over the future operation.
- If there is no agreement then the Council has the ability to tender the future operation of the facility
- The costs of enacting the break clause are limited to any direct costs associated with the termination of the existing contract (such as maintenance contracts). No loss of profit is paid.

2.19 The implications of this for each of the five options are as follows

SECTION 2 – PROJECT UPDATE

- **Options 1 and 2** – as these are refurbishment options as opposed to redevelopment of new facilities, then it is unlikely the break clause can be implemented
- **Option 3** – as this would be a phased redevelopment on the existing site, whilst it is understood that the break clause can be implemented, there is a risk that this could be challenged due to the phased approach and when does the existing facility become a new facility. Equally on a practical basis, there will be potential issues with having some existing and some new facilities.
- **Options 4 and 5** – the break clause can be implemented for both of these options, as it is very clear there will be a new facility and the existing facility will close once the new facility is open.

2.20 Thus there are implications for each of the options in terms of whether the contract with PfPL can be ended through any redevelopment.

Existing Budget Review

2.21 We have as part of our work reviewed the existing budget which the Council incur in delivering RPLC and this is summarised for 2015/16 in the table below.

Table 2.4 – Existing RPLC Budget

Budget Area	2015/16 (£)	Notes/Comments
Premises Insurance	14,475	• will be included in any future revenue projections
PfPL – NNDR Payment	46,446	• to reflect discretionary NNDR relief
PfPL – Profit Share Income	(17,300)	• the Council's share of profit from the contract
General Fund Depreciation	695,982	• depreciation of the capital costs of RPLC
Corporate Property Repairs	274,000	• includes £250,000 identified for loss of income due to works to be carried out in 2015/16 which is a one off cost
Support Services	11,867	• allocation of charges from support services
Sport & Physical Activity	103,190	• allocation of charges from sport and physical activity department
Other Costs	258	• such as car mileage claims
Total Budget	1,128,918	

2.22 It can be seen from the existing budget that the current cost to operate RPLC is circa £1.13 million per annum, however of this there are a number of charges which will not be impacted through a redevelopment of the facility, including

- £250,000 loss of income under corporate property repairs
- Support Services (£11,867)
- Sport & Physical Activity (£103,190)
- Other Costs (£258)

SECTION 2 – PROJECT UPDATE

2.23 Thus the net budget which would be impacted by any redevelopment of the facility is a total of £763,603 per annum (2015/16 budget), as summarised below

- Payment to PfPL £29,146
- Maintenance £24,000
- Premises Insurance £14,475
- Capital Depreciation £695,982

2.24 The payment to PfPL includes the payment made for NNDR relief with the payment received from PfPL for profit share netted off against this payment. We propose to use the existing budget identified above (£763,603) in our financial analysis to assess the level of borrowing the Council could undertake through a 'spend to save' scheme.

2.25 All of the costs identified above in the existing budget will be included within our revenue projections and financial modelling, including life cycle and maintenance costs, premises insurance and depreciation.

Pricing Review

2.26 We have as part of our work undertaken a review of competitor's prices, to assess whether there is the potential to increase prices at RPLC to reflect market prices, which we have factored into various financial scenarios.

2.27 We compare the prices across key activities for three other facilities, including Fleming Park Leisure Centre (Eastleigh), Alton Sports Centre and Andover Leisure Centre as some of RPLC's closest competitors, in the table below. It is worth noting that both Fleming Park and Alton are seeking to develop new facilities and as such prices may increase by the time any new facility opens in Winchester.

Table 2.4 – Pricing Review

Activity (£)	RPLC	Fleming Park LC	Alton SC	Andover LC
Adult Swim	3.70	4.50	4.30	3.75
Junior Swim	1.95	2.00	3.10	2.50
Family Swim	8.70	10.00	10.70	11.35
Badminton Off Peak	6.60	7.30	10.50	
Badminton Peak	9.75	11.20	13.20	
Squash Off Peak	5.15	5.30	6.70	
Squash Peak	7.40	7.30	8.55	
Gym	7.60	7.00	8.10	7.50
Aerobics	6.40	6.00	6.50	6.40

Notes

1. All prices except squash (40 minutes) are based on hour sessions, where timing is taken into account in pricing.

SECTION 2 – PROJECT UPDATE

2.28 RPLC prices in a number of areas are in line with other prices from competitors, including squash, gym and aerobics, however there are other areas in particular swim and badminton where the prices charged are lower than all the competitors.

2.29 As a result in order to understand how a market based price approach might impact on income, we have assumed percentage increases against key activity areas (swimming and sports hall) of 15% on current prices, which would deliver prices as follows

- Adult Swim £4.25
- Junior Swim £2.25
- Family Swim £10.00
- Badminton Off Peak £7.60
- Badminton Peak £11.20

2.30 These prices would illustrate a commercial approach and be in line with competitors, although it should be recognised that there may be the opportunity to push prices higher in line with Alton Sports Centre, but this is likely to mean usage will decrease.

2.31 We have thus used a 15% increase in income in the key areas identified above when looking at scenarios later in the report. It should however be recognised that within these increases concessionary pricing would be protected for disadvantaged groups.

Capital Cost Review

2.32 The Council have undertaken a feasibility study with designs and options which have been costed for the capital developments together with estimates for refurbishment based on condition survey works. The capital costs for each of the options presented are set out below and are based on the facility mixes presented in Appendix B.

Table 2.5 – Capital Costs

Option	Capital Costs (£'m)	Notes/Assumptions
1. Condition Survey Only	4.19	<ul style="list-style-type: none"> • Based on undertaking condition survey works only inflated to 2015/16
2. Enhanced Refurbishment	5.27	<ul style="list-style-type: none"> • Additional enhanced refurbishment works based on inflation to first quarter 2013
3. Existing Site Redevelopment	27.586	<ul style="list-style-type: none"> • Includes demolition of existing • Inflation to third quarter 2016
4. Bar End Redevelopment (garrison & depot)	25.183	<ul style="list-style-type: none"> • Includes demolition of existing • Inflation to first quarter 2016
5. Bar End Redevelopment (WCC, HCC & Uni)	24.698	<ul style="list-style-type: none"> • Includes demolition of existing • Inflation to first quarter 2016

SECTION 2 – PROJECT UPDATE

2.33 In addition to the costs presented above Roberts Limbrick indicate that for Options 3, 4 and 5 the inclusion of a 50 metre pool as opposed to a 25 metre pool would add a further £1.4 million to the capital costs illustrated above.

2.34 These costs have been developed through the development of designs and costings based on these designs. They all exclude VAT. We summarise over the subsequent paragraphs some examples of other recently developed facilities for comparison.

Case Study – Hinckley Leisure Centre

Hinckley & Bosworth Borough Council

A DBOM (Design, Build, Operate and Maintain) procurement (competitive dialogue) for the redevelopment of Hinckley Leisure Centre replacing an existing ageing Facility, delivered improved participation, revenue and sports development outcomes, whilst generating significant savings for the Council.

The redevelopment of Hinckley Leisure Centre was undertaken to include a new 25m, 8 Lane pool, 8 court Sports Hall, Health and Fitness and climbing. The redevelopment resulted in a **payment from the operator of £900,000 per annum**, enabling the £15 million capital cost to be paid for from prudential borrowing and capital receipts.

This delivered a **saving of £0.5 million per annum** to the Council after the capital was paid for. Currently under construction, the facility is due to open in 2016.



2.35 As can be seen from the case study above the facility mix for Hinckley is very similar to the proposed facility mix for the new facility in Winchester, with the key exception being the exclusion of squash courts and hydrotherapy pool and an 8 lane 25 metre pool instead of 10 lanes, but it does have a large splash pool as well.

SECTION 2 – PROJECT UPDATE

2.36 The capital cost of £15 million is illustrative of the costs that can be achieved and the facility is currently under construction. It should however be recognised that the £15 million cost excludes a number of elements included within the costings for Winchester development options, such as demolition of existing facilities, re-provision of AGP, additional pool facilities. We also illustrate below the costs associated with the redevelopment of the Mountbatten Centre in Portsmouth, which is a 50 metre pool, but is refurbishment of the existing facilities.

Portsmouth City Council	
<p>Combining a DBOM (Design, Build, Operate and Maintain) and leisure management outsourcing contract the leisure provision delivered improved participation, revenue and sports development outcomes, whilst generating significant savings for the Council.</p> <p>The redevelopment of the Mountbatten Sports Centre was undertaken to include a new 50m swimming pool and training facilities, replacing an old 33m pool and enhancing other regional dryside and outdoor sports at the Centre. The redevelopment together with the outsourcing of other leisure facilities in the City improved the annual revenue position from a £300,000 deficit to a £500,000 surplus.</p> <p>The capital costs of the scheme were £20 million which was funded through capital receipts, Sport England funding and prudential borrowing (c.£10m), funded from the improved revenue position.</p> <p>The scheme was delivered through a DBOM contract which included the transfer of risk to the private sector. Construction (cost and time) risk and operating performance risk were all transferred with the new facilities opening 8 weeks early and on budget.</p>	  <p>Key Outcomes</p> <ul style="list-style-type: none"> - £20m capital investment - £0.8m savings per annum - £10m prudential borrowing - Increased participation

2.37 In addition to these case studies we summarise below a number of other facilities which have recently been developed, with similar facility mixes to the proposed RPLC, based on Sport England case studies that have been prepared.

Table 2.6 – Facility Developments

Facility	Facility Mix	Capital Cost & Year Developed
K2 Crawley	<ul style="list-style-type: none"> • 50 metre pool, leisure pool • 12 court Sports Hall • 5 squash courts • gymnastics training hall • health and fitness • climbing wall & martial arts • indoor athletics 	<p>£25.76 million</p> <p>(2005)</p>

SECTION 2 – PROJECT UPDATE

Facility	Facility Mix	Capital Cost & Year Developed
Warrington Sports Village	<ul style="list-style-type: none"> • 25 metre 8 lane pool and learner pool • 4 court Sports Hall • Health and Fitness • GP surgery and health facilities • Outdoor facilities including pitches and AGP 	<p>£28 million</p> <p>(2012)</p>

2.38 Sport England have also provided cost guidance for affordable sports centres which illustrates the following for community sports centres

Table 2.7 – Affordable Sports Centres Cost Guidance (Sport England)

Facility	Facility Mix	Capital Cost & Price Year
Affordable Sports Centres with Community 25 metre pool	<ul style="list-style-type: none"> • 8 lane 25 metre pool plus learner pool • 5 court sports hall • 100 station health and fitness plus 2 studios 	<p>£9.525 million</p> <p>(first quarter 2015)</p>
Affordable Sports Centres with Community 50 metre pool	<ul style="list-style-type: none"> • 8 lane 50 metre pool plus learner pool • 5 court sports hall • 150 station health and fitness plus 3 studios 	<p>£16.065 million</p> <p>(first quarter 2015)</p>

2.39 Sport England also indicate in their affordable sports centre guidance that the difference between a 8 court Sports Hall and 12 court Sports Hall is circa £1.27 million.

2.40 Whilst all these facilities do not match exactly the proposed facility mix for RPLC they provide an indication of the likely capital costs in comparison with the market.

2.41 Thus the Council can be confident that the budget costs presented for the various options appear to be in line with market positions and we would anticipate them being deliverable. It should also be recognised that the budget costs prepared by Roberts Limbrick do include for demolition of existing, land acquisition costs and replacement of AGP.

Key Issues Summary

2.42 Following on from our review of the key issues we have identified that the following should be considered when reviewing the future delivery options

- There is the potential to bring in external funding from key stakeholders towards a redeveloped facility (particularly from the University of Winchester)

SECTION 2 – PROJECT UPDATE

and the Pinder Trust) with the most significant level of funding being only available for the Bar End options.

- Key stakeholders in general are more supportive of a redevelopment of a new facility at Bar End as opposed to a redevelopment on the existing site.
- The Bar End location is likely to bring a number of advantages over the existing site for any redevelopment, including
 - The potential to attract greater funding
 - Better access from a broader catchment area
 - Potential for future growth in terms of facility development

There will however be a need to ensure that the land ownership issues are addressed and also recognising it is not as accessible from the city centre.

- The facility mix presented in the Roberts Limbrick feasibility study for any new facility, as well as delivering on the needs identified in previous studies, meets the aims of the key stakeholders, in particular
 - The University who are seeking a sports hall, and space for teaching and the sport and exercise science department. The provision of a swimming pool would also add value
 - The Pinder Trust who wish to have a hydrotherapy pool
 - The ASA who have not identified the need for a 50 metre pool, but do identify that there is the potential for a 10 lane 25 metre pool not to be as practical as a 50 metre pool, for example it can be difficult to teach in a 10 lane pool for lessons and club use.

It should however be recognised that there are some areas where stakeholders are keen to see the facility mix enhanced, including

- The development of a 50 metre pool, which is a key focus from Fit 4 the Future, however is not a key requirement from other stakeholders
 - The development of a 12 court Sports Hall, which would be desirable for the University and has been identified by Fit 4 the Future
 - Additionally we understand that there has been some need identified for trampolining and gymnastics.
- The redevelopment of facilities at Bar End would enable the Council to break the contract with PfPL having followed due process if they so wished.
 - The capital costs presented in the Roberts Limbrick feasibility study are broadly in line with current developments in the market and include the demolition of the existing facility, thus the Council can have confidence the facility can be delivered for the levels of capital identified.

SECTION 2 – PROJECT UPDATE

2.43 These issues have been used to inform the procurement options, our financial analysis and the overall conclusions and recommendations and we summarise in further detail these factors for each of the five options in Appendix B.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

Introduction

- 3.1 If the Council are to redevelop the RPLC and build a new facility there is a need to consider two aspects for the redevelopment, including
- The construction and financing of the new facility, and
 - The future governance and operating model for the facility
- 3.2 Within this section we consider the options available to the Council (and potential partners) and the implications of the options. Currently the existing facility is managed through a leisure management contract with PfPL (previously DC Leisure), who are an experienced leisure operator managing circa 100 sites throughout the UK, including Fleming Park Leisure Centre in Eastleigh.

Capital Development Options

- 3.3 In considering the future redevelopment of the RPLC there are a number of different delivery and procurement options, which can be categorised into three different types which include
- **Traditional Procurement** – the Council commissions the design and construction separately, retaining all capital cost risk
 - **Design and Build** – building contractor takes the risk of the construction and design to an agreed specification.
 - **Design, build and operate options** – where the council appoints a consortium to design, build and operate the facility. There are a number of variations on this including Design, Build, Operate and Maintain (DBOM), Public Private Partnership (PPP), Private Finance Initiative (PFI), etc
- 3.4 We summarise and represent in Appendix C a comparison of the various procurement options. The key difference between each of the three options above is the level of risk that is transferred. For example
- **Traditional Procurement** – the Council retains all the risk of any capital overrun and design risk. In addition the operator is procured separately and there may be interface issues with the design, ie the operator may not be able to maximise their revenue or operate effectively if they are not involved in the design
 - **Design and Build (D&B)** – the Council transfer the risk of capital cost overrun and time to a building contractor through a design and build contract, in accordance with an agreed specification. The operator is still procured separately and again there may be interface issues, particularly around lifecycle costs.
 - **Design, Build and Operate Options (DBO)**– the Council procures a consortium to design, build and operate the facility for a period of time (usually 20-25 years) and transfers the risk of construction and future operation to one party. In this way interface issues are excluded.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

3.5 For all the options the financing of the capital can be in a number of different ways, such as

- Council capital programme or reserves
- Prudential Borrowing
- Private sector or external investment
- Grant Funding
- Combination of some or all of the above

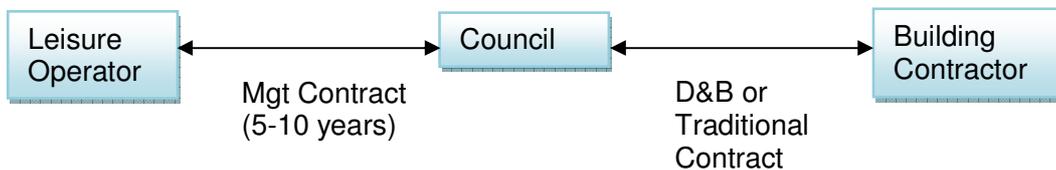
3.6 We explore section 4 the financing options open to the Council and how these may impact on the procurement option.

3.7 We review the different procurement options over the following paragraphs but recognise that the traditional and D&B contracts are similar in that they have a separate operating contract for the facilities. As such we have broadly grouped these two options together.

3.8 We present diagrammatically the contract structure for both options in Figure 3.1 and summarise in the table below a comparison of the key features for each option.

Figure 3.1 – Contract Structures

Design and Build



SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

Design, Build and Operate

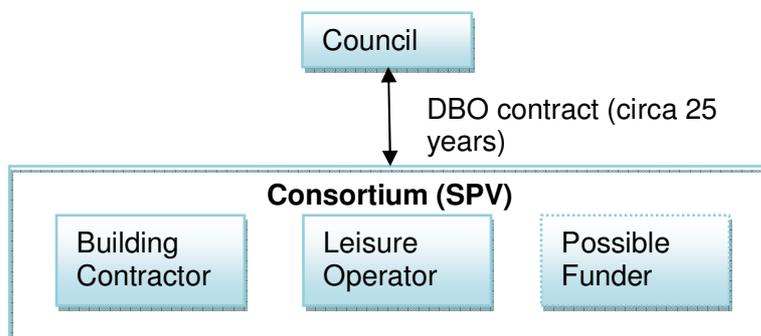


Table 3.1 –Options compared

Area	Traditional and D&B	DBO
Description	<p>A D&B or traditional contract is entered into where a building contractor is commissioned to design and/or build the facility in accordance with an agreed technical and design specification.</p> <p>The operator is procured separately through a management contract.</p>	<p>A DBO contract is entered into where a consortium (usually including a building contractor and leisure operator) will design, build and operate the facility for a period of 25 years. The consortium will typically form a SPV (Special Purpose Vehicle) to deliver the contract.</p> <p>The Council will pay a fee for the delivery of the service (usually through a unitary charge) over the life of the contract, although this could include a capital payment as well.</p> <p>The consortium may include a funder if required</p>
Funding and Finance	<p>The D&B and traditional option can be funded through both public finance and could be funded through private finance, however because there are two separate contracts one of the impacts would be potentially increased operating costs and/or lifecycle costs which increase the overall cost of the scheme.</p>	<p>Through DBO schemes because the operator is responsible for the long term operation, they have a vested interest in ensuring the whole life costs (capital, lifecycle and revenue) deliver the best value for money.</p>

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

Area	Traditional and D&B	DBO
Risk Management	<p>The two principle risks – capital cost/time and operating risk will sit with different parties (building contractor and operator).</p> <p>This may mean that if the capital does overrun on time then this would impact on the operating contract, reducing the return to the Council</p>	<p>All of the risk sits with one party (consortium), which means there is a vested interest in the consortium managing the process effectively. Thus if the capital build overruns then the Council is unaffected, unless they have influenced or changed the specification, and the cost to the Council remains unchanged for the 25 years.</p>
Council Control	<p>The Council will develop a technical specification for the D&B or traditional contract, by which they control the design and construction quality.</p> <p>A separate service contract is developed for the operating contract, and the Council will need to be sure that the service standards can be delivered by the design</p>	<p>The Council will still develop a technical specification for the D&B contract, by which they control the design and construction quality, and will supplement this with a service specification for the operation which will specify that the design must be able to meet the service standards.</p>
Complexity	<p>Generally D&B and traditional contracts are simpler due to the separation of the contract and dealing with one company as opposed to a consortium. The management contract can also be for a shorter period than 25 years, as low as 5 years.</p>	<p>DBO contracts tend to be more complex, typically because the contract is for a longer timeframe so that issues such as benchmarking need to be addressed. There are also usually more than one party involved in a consortium.</p>
Time to Procure	<p>Generally the time to procure will be shorter than DBO, with a typical time being 12 months</p>	<p>Although DBO contracts are generally longer to procure these projects are becoming more established and such that time to procure is decreasing. Typically 12 – 18 months, although for a project such as this 12 months should be achievable</p>

3.9 The main issue for the Council in the difference between the two procurement routes are the interface issues and the length of contract. For example, if the Council is keen to ensure that the transfer of both capital cost risk and future operating risk is contained within one party then the DBO contract is valid.

3.10 Alternatively a D&B contract means that the Council are able to undertake a shorter operating contract, but there may be some compromise on the risks.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

- 3.11 Whilst either the D&B route or the DBO route would enable some transfer of risk we recommend that the DBO route is likely to provide greater risk transfer for the Council and certainty over future operating costs. This aligned with the increasing number of similar models means that the Council can be confident this can be delivered through the DBO route.
- 3.12 It does also mean that the full responsibility for life cycle and repair costs can also be transferred to the consortium. Under the D&B contract the future operator may not be willing to take on the full life cycle responsibility if they are not comfortable with the D&B approach.
- 3.13 However if the Council was concerned about letting a long term contract then the D&B option is equally appropriate, but there will be some issues of loss of risk transfer.
- 3.14 Under the DBO approach there are a number of different options which can be explored, which typically depend on the financing approach. For example, where the Council funds the project from either its capital programme or prudential borrowing then a DBOM (Design, Build, Operate and Maintain) approach is typically used as opposed to a PPP/PFI where the private sector fund the capital.
- 3.15 Whichever route is used the basic principles of the contract remain the same, in that it is a long term contract to design build and operate. The differences in the funding arrangements usually mean that there are slightly different arrangements for the funder if a private sector funder is used in that they will have a direct agreement with the council, which is not required if the Council fund the project through DBOM.
- 3.16 Examples of DBOM projects are the Mountbatten Centre, Portsmouth and Hinckley Leisure Centre both are illustrated earlier in the report.

Future Governance and Management Options

- 3.17 There are a number of different options available in the market for the governance and operation of a facility such as RPLC. We also take into account the potential opportunities and issues associated with operation through the University.
- 3.18 Within the range of management options broadly they can be classified into three different types, which would have similar characteristics
- **In house provision** – where the services are provided either directly or through management model on which the Council has control, such as wholly owned companies, or joint ventures with key partners (such as the University).
 - **Not for Profit Organisations** – where the services are provided by an organisation which does not distribute profits to shareholders, including educational facilities (such as schools, universities and colleges), local community organisations and sports clubs. All surpluses or profits are reinvested in the business. The existing provider PfPL are a not for profit organisation.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

- **Profit Making Organisations** – where the organisation distributes any profits to the owners of the organisation (shareholders)

3.19 It should be noted that the governance and management options only relate to facilities which are funded (either in part or in whole) by the Council. Other organisations such as universities, schools and sports clubs do deliver and operate facilities which they have solely funded and as such are outside of this analysis.

3.20 Within Table 3.2 below we provide a description of the various options and seek also to identify the broad type of organisation they fit into.

Table 3.2 – Management Options

Management Option	Description	Type of Organisation
Direct Provision	<ul style="list-style-type: none"> • The service is operated and delivered by the Council, as existing • All staff are employed by the Council and the service is managed as part of the Council Committee structure 	In House
Organisation owned by the Council	<ul style="list-style-type: none"> • A company is established which is wholly owned by the Council to operate the service, but operates at arms length from the Council • Typically this is a commercial company, enabling the service to operate with more freedom 	In House
Charitable Company Limited by Guarantee (CLG)	<ul style="list-style-type: none"> • A company which is set up to operate the service, but reinvests surpluses into the service • It is usually charitable (bringing tax advantages) and will have a number of trustees 	Not for Profit
Industrial & Provident Society (IPS)	<ul style="list-style-type: none"> • An incorporated entity for the benefit of the community, governed by the Industrial and Provident Societies Acts • Has board members and shareholders. Board members manage on behalf of shareholders 	Not for Profit
Community Interest Companies (CIC)	<ul style="list-style-type: none"> • A company which is established for community benefit. • All surpluses generated must be used for community benefit, but can be distributed to shareholders/investors subject to a cap 	Not for Profit or Profit Making
Charitable Incorporated Organisation (CIO)	<ul style="list-style-type: none"> • Vehicle established specifically for charities (by the Charities Act 2006) • Similar governance to a company, but likely to have charity trustees as opposed to directors 	Not for Profit

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

Management Option	Description	Type of Organisation
Hybrid Trusts	<ul style="list-style-type: none"> A commercial company who operate services but have established a not for profit organisation to manage the service Typically this would be a charitable company, enabling tax advantages to be achieved the Council would enter into a partnership with a hybrid trust to operate the services 	Not for Profit
Existing Trusts	<ul style="list-style-type: none"> The Council would enter into a partnership with a Trust that has been set up by another Council The trust would usually be a Company Limited by Guarantee or an Industrial and Provident Society 	Not for Profit
Co-operative or Mutuals	<ul style="list-style-type: none"> Business which are owned and run by and for its members (which could be staff, customers, community) Can be anyone of a number of different legal forms including the types of not for profit set out above (such as Charitable Company Limited by Guarantee or Industrial and Provident Society) or it can be a profit making company The principles of a co-operative are that members get an equal say(one member one vote on the Board), independence, learning organisation and collaboration 	Not for Profit or Profit Making
Joint Venture	<ul style="list-style-type: none"> Where the Local Authority develops a company which has investment from the private (or other non profit) sector and is jointly owned by the Council and the other organisation This would be utilised where major capital investment is used and has typically been developed through the delivery of schools, and health services, through programmes such as Building Schools for the Future (BSF) and Local Improvement Finance Trusts (LIFT) in the health sector 	Not for Profit and / or Profit Making
Dual Use	<ul style="list-style-type: none"> Where facilities on educational establishments are operated through a dual use agreement Facilities can be delivered through direct operation by the school, college or university or through an operator Typically the Council funds these through grant or capital funding 	Not for Profit

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

Management Option	Description	Type of Organisation
Private Sector Management Companies	<ul style="list-style-type: none"> • There are a range of private sector management companies who operate services on behalf of Local Authorities, such as leisure management, arts facilities, and other leisure services • These organisations can be Hybrid Trusts (as set out above) or can operate as commercial management contractors • They would be a profit making company and would operate under a management contract with controls over the operation put in place by the Local Authority 	Profit Making
Commercial Organisation	<ul style="list-style-type: none"> • Where a commercial organisation would run services and take on the assets of the Local Authority but operate the services commercially, with no control over the operation by the Local Authority • For example a leisure centre would be operated as a membership only facility and focus on those with the ability to pay as opposed to disadvantaged groups 	Profit Making
Unincorporated Association or Trust	<ul style="list-style-type: none"> • An association which is established to operate under its own rules – can be charitable • Will have unlimited liability for those running the association 	Not for Profit or Profit Making
Sports or Leisure Club	<ul style="list-style-type: none"> • A club established for sports or other activities such as Bowls or Football Clubs • They are typically set up as a Community Amateur Sports Club or unincorporated association • They can also be charitable companies or other forms of companies as set out earlier • Typically the funding which comes from the Council is in the form of a grant 	Not for Profit
Community Groups	<ul style="list-style-type: none"> • As with Sports or Leisure Clubs they can be a number of different legal forms • Typically they are unincorporated associations, but can be a range of other legal structures • Typically the funding which comes from the Council is in the form of a grant 	Not for Profit

3.21 As can be seen from the table above there are a range of different types of management options which are available to the Council and have been used to operate Local Authority and other community services. We provide more detail on these options in Appendix D and E.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

3.22 Whilst there are a number of different options set out above these can be considered as 6 principle options, which each of the options can be categorised into and have different characteristics, including

- **In house option** – where the service is continued to be managed through an organisation on which the Council has control, in effect maintaining the status quo in terms of control and governance. This would include direct provision and an organisation wholly owned by the Council, or potentially a joint venture.
- **A new Not for Profit Distributing Organisation (NPDO)** – where the service is managed by a newly established NPDO specifically set up to run the Council services. The NPDO could be one of a number of different types including a CLG, IPS, CIC, CIO and could be a co-operative or mutual.
- **An existing NPDO** – where the service is managed by an existing NPDO which operates services for other Councils. Typically these trusts have developed following an initial transfer of services through the creation of NPDO to deliver leisure services. They are usually either a CLG or an IPS but can be other types of NPDO and could be consider to be a co-operative
- **Educational Establishment, Community Association or Sports/Leisure Club** – where the service is managed by an educational establishment, community association or local sports group. Typically this is undertaken where the group is the primary user and often sits with educational establishments or sports clubs, such as Bowls, Rugby, Cricket and Football.
- **Hybrid Trusts** – where the service is operated by a private sector Leisure Management Contractor, such as 1Life, Places for People Leisure, SLM, through a NPDO organisation. It should be noted that within the private sector all of the major operators also have different operating models which enable the benefits of NNDR savings and VAT to be realised, commonly known as Hybrid Trusts. Indeed some of the organisations are now established as registered charities, such as Active Nation. Typically these organisations are CLG's
- **Private Sector** – where the service is operated by a private sector Leisure Management Contractor, such as 1Life, Places for People Leisure, SLM, without the use of a NPDO organisation. All the operators offer this potential as well as their NPDO organisation (Hybrid Trusts). In addition there are a number of major FM companies who are now running services such as libraries and other facilities as part of a major outsourcing approach. A joint venture approach could also fall into this category

3.23 For the remainder of the section we have presented an overview of the management options based on the six principle options, as all of the options fit into one or other of the principle options sharing similar characteristics. Where there are any particular differences in the sub options we highlight these, particularly where options fit into one or more of the principle categories. For example a NPDO could be either a new or existing organisation and the differences will be about the governance of the organisation.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

3.24 We seek in this section to provide an overview of the various characteristics of each of these options, such as the type of organisation and the various governance and other issues arising from each of them, with further detail in Appendix D and E.

3.25 All of the six principle options presented above are well established within the leisure market and there are examples of all of the options operating within the Local Authority market.

Key Differences in the Options

3.26 We summarise some of the key features of the delivery organisations below within the following areas

- Governance – what type of organisation and how they are established
- Relationship with the Council – how they contract with the Council

3.27 The following paragraphs summarise in each of these areas how the various options are structured and relate to the Council. Further detail is provided in Appendices D & E.

Governance and Organisation Structure

3.28 The in house option is structured as part of the Council and will typically form part of a wider department in the Council. In a similar way the wholly owned organisation would also typically be operated with Councillors (and possibly Officers) as directors reporting through to the appropriate committee or leadership group.

3.29 For a NPDO there are 2 principle types of organisation which are being set up whether it is an existing NPDO, or a newly created NPDO. This equally applies to Hybrid Trusts as well. These are

- **Charitable Company Limited by Guarantee (CLG)** – a corporate body similar to other companies, except that profits cannot be distributed to shareholders.
- **Industrial and Provident Society (IPS)** – a friendly society with charitable objectives, typically the employees will ‘own’ the IPS as members but will be required to operate for the benefit of the community

3.30 There are a number of differing types of CLG, including Community Interest Companies and Charitable Incorporated Organisations, which are set up as Companies but have additional rules protecting the community assets, as described earlier.

3.31 Within the leisure market the two most common forms of NPDO are the CLG and IPS, both of which are suitable for the delivery of services, although the corporate structure of a CLG is often seen as more favourable, as it is a more familiar structure when dealing with third parties such as banks, other funders and investors.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

- 3.32 Both CLG and IPS will have boards of trustees or Directors who run and manage the organisations, typically with less than 20% representation from the Council in order for the NPDO to retain its independence, and gain charitable status. This is important so that the NPDO is seen as off balance sheet and enables the NPDO to seek funding from banks and other investors, as well as enabling charitable status to be gained.
- 3.33 The basic principle for all of the organisations and governance arrangements is that they are charitable or operate as charities, which enables them to benefit from NNDR, VAT and other tax relief (such as reduced corporation tax).
- 3.34 Whichever formal legal structure they have, the characteristics around governance are often similar to NPDO's in that they will operate as not for profit organisations and have some or all of the following governance characteristics
- They will typically have either a Board of Directors or a Committee (with Trustees) who run and manage the organisation, elected by its members
 - They will often gain tax benefits due to their non profit making status, including NNDR relief and VAT/Corporation Tax relief
 - Volunteers are key to the successful operation of a local community group or sports club and they survive with significant input from volunteers
- 3.35 Of particular relevance to this project is also operation by the University, as they have expressed a wish to operate the facility. They are a registered charity and bring additional resources to operate facilities. The governance arrangements in this scenarios would be operation by the University.
- 3.36 The private sector would be a normal corporate body which would distribute profits to shareholders and be regulated by the corporate governance structure and companies house.

Council Relationship

- 3.37 For both existing (including hybrid NPDO) and newly created NPDO's they will require a lease of the facilities (usually at peppercorn rent) with a funding agreement or management agreement requiring the NPDO to deliver the outcomes as part of a specification. The reason for the lease (and beneficial occupation) is to enable the NNDR (Business Rates) relief to be achieved.
- 3.38 We recommend a management agreement is put in place (whether with an existing NPDO or new NPDO) as this will enable the management fee to be standard rated for VAT and improves the ability for the NPDO to recover its VAT. A grant would not attract VAT and thus lead to greater irrecoverable VAT.
- 3.39 There are a number of ways in which the differing models will relate to the agreement and each organisation will have its own particular structure, however in general the arrangements are as follows.
- **Newly Created NPDO** – the trust board and organisation will be focused specifically on RPLC and as such the trustees will be from Winchester and the

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

management agreement will be with an organisation that focuses specifically on RPLC, in the first instance. There is usually therefore no need to structure any sub contract or other agreements.

- **Dual Use, University, Local Community Group or Sports Club** – the organisation and committee will typically be focused on the facility which they operate and as such the lease and management agreement will be with an organisation that focuses specifically on the facility and there is usually no need to structure any sub contract or other agreements. Examples of this in Universities include Surrey Sports Park and University of East Anglia Sports Park.
- **Existing NPDO** – the organisation will be operating services outside Winchester and indeed the main place of business is likely to be outside Winchester. Typically the trust would set up a local management board (or board of Trustees) which would be part of the overall NPDO and report through to the main board. This is not always the case but if Winchester required this to be the structure then it can be a requirement of any arrangement. The local board would then have responsibility for overseeing the agreement but with the main board still taking responsibility for the financial and outcome delivery. This may be particularly important where the Council requires the NPDO to reinvest any surpluses back into its own facilities.
- **Hybrid NPDO** – the NPDO in this arrangement is generally the principal with whom the lease and management agreement is signed. They will then typically contract the operation of the services to a commercial leisure management company, passing down the obligations set out in the specification and management agreement. Each organisation has their own terminology and also some of the organisations provide for the ability to have local trustees and a local trust, whereas others do not. Generally speaking if there are surpluses on the contract these are more likely to be shared with the parent organisation as opposed to all surpluses being reinvested in the facilities and this is not a locally decided matter.
- **Private Sector** – there is typically a management contract with the private sector which may or may not include a lease. There is not such a need for the lease as NNDR relief is not able to be achieved. Any profits would be shared with the Council and there would not be any representation of local people on the Board of Directors.

3.40 In all cases the responsibility for achieving the NNDR and VAT savings sit with the NPDO (or other organisation), however usually the Council will be required to accept the risk if there is a specific change in law altering the position on NNDR and VAT. If the reason for loss of NNDR or VAT relief is due to the NPDO's changes then this risk would sit with the NPDO.

3.41 There is also the potential for a Community Asset Transfer (CAT), which typically are linked to local community groups or sports clubs, where the organisation takes on the responsibility for the facility and the service.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

3.42 This approach could mean that the Council effectively transfers the facility to the organisation in one of two ways

- Through a lease as outlined earlier, although typically this would not have a management agreement associated with the lease and the organisation would take responsibility for all the maintenance and upkeep of the building
- Freehold transfer of the building, although in reality this rarely happens unless the facility is due to be sold and the community organisation buys the facility.

3.43 Thus a CAT could take place with local organisations, although the lease transfer is similar to the approach set out for a NPDO.

Options Analysis

3.44 There are a number of options available to the Council for the long term governance and operation of the redeveloped RPLC, however we suggest that the in house option and the private sector option are not relevant for any future operation, due to the following reasons

- there are no tax advantages for these options and as a result because the current arrangements enable NNDR relief and VAT advantages, this would add additional cost to the service
- there is little local input to the future delivery of services in either of these options
- the in house option could potentially mean additional costs through the need to bring salaries in line with other Council staff

3.45 As a result of these issues we recommend that these two options (in house and private sector) are not considered. In considering the other options there are a number of key issues which will factor in any future management options, including

- the existing contract with PfPL, which runs to 2023 and whilst the current arrangement can be broken for Options 4 and 5 (redevelopment at Bar End), this is not the case for Options 1 & 2, but may be possible for Option 3.
- It should also be noted that PfPL currently run Meadowside Leisure Centre as part of their contract and this would need to be included in any retendering or future management.
- if the University are involved in funding the project (Options 4 & 5) then they are keen to operate or at least be involved in the governance of any future operation, and protect the times of access for students
- future revenue savings are likely to be required from the redevelopment to enable capital costs to be funded through spend to save schemes

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

- local partners (such as Pinder Trust and Fit 4 the Future) are keen to be involved in the governance of any redeveloped facility if they are providing funding
- the Council will need to ensure that use by the local community is protected and encouraged in any future management model
- any funding from the University will need to be recognised in the branding and marketing of the facility, so that the University can present the facility as a University facility, in partnership with other partners

3.46 As a result of these core issues we believe there are a number of management options which could be available for each of the core options as summarised below.

Table 3.3 – Management Options

Facility Development Options	Newly Established NPDO	University	Existing NPDO	Hybrid NPDO
Option 1 – Condition Survey Only	Not available until 2023	Not Applicable	Not available until 2023	Existing contract until 2023
Option 2 – Enhanced Refurbishment	Not available until 2023	Not Applicable	Not available until 2023	Existing contract until 2023
Option 3 – New Build Existing Site	Possibly not available until 2023	Not Applicable	Possibly not available until 2023	Possibly existing contract until 2023
Option 4 – New Build Bar End (depot/garrison land)	Can be considered	Can be considered if funding provided	Can be considered	Can be considered
Option 5 – New Build Bar End (council/university land)	Can be considered	Can be considered if funding provided	Can be considered	Can be considered

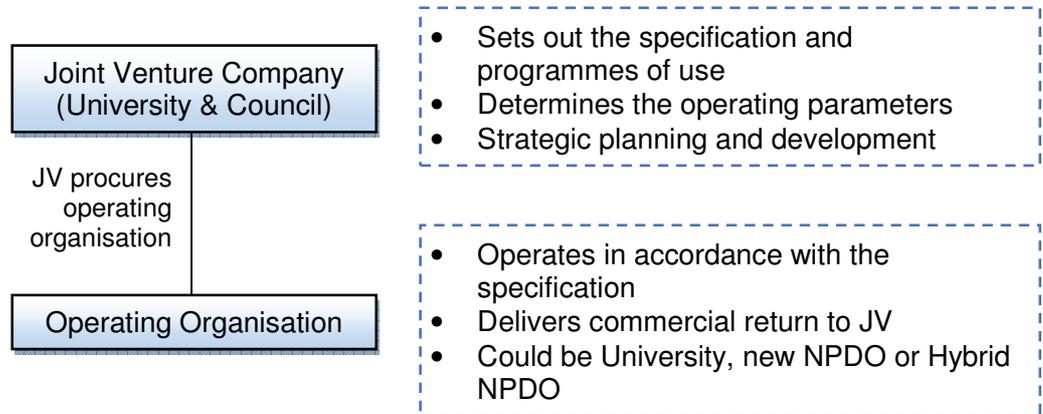
3.47 As can be seen that for Options 1 and 2 (and possibly 3) the Council is likely to be tied into the existing contract until 2023 and then could consider alternative arrangements. In all 3 options the operation by the University is not an option due to the lack of funding to these Options from the University.

3.48 For options 4 and 5 all of the potential options can be considered.

3.49 One of the important issues which will need to be addressed for Options 4 and 5 will be the needs of both the University and the Council to ensure their funding investment delivers on both student needs and community needs respectively. One way to do this may be to establish a joint venture to oversee the governance and agree on the future operation, as illustrated in the diagram below

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

Figure 3.2 – Future Governance



3.50 The advantage of this approach for Options 4 and 5, where the University are involved in funding the project would mean that

- Both the University and Council would need to work together to ensure the delivery of their strategic aims and outcomes from their funding
- There is the potential for the JV to procure a partner who can deliver a commercial return to enable the revenues to fund the capital, which could also be the University
- There is the opportunity to involve other key stakeholders in the JV (such as Pinder Trust or other sports clubs and organisations)
- Any commercial returns, after funding capital are retained within the RPLC redevelopment

3.51 We thus recommend that if Option 4 or 5 are developed and the University provide funding that the Council consider the option presented above.

3.52 For options 1,2 and 3 the Council should consider the options further once the existing contract with PfPL has ended in 2023.

Summary

3.53 This section has presented an overview of the key issues associated with both the design and construction of any new facility and also the long term operation. A number of key issues should be factored into any final decision, which will also depend on the Option chosen, as follows

- Options 1, 2 and possibly 3 will mean that the Council is tied into a contract with PfPL until 2023. This means for each of these option this arrangement can continue. The Council can however determine whether it is better value for PfPL to undertake the works or for the Council.

SECTION 3 – PROCUREMENT AND MANAGEMENT OPTIONS

- For Options 4 and 5, there is the potential for University involvement in the governance and operation and we recommend that if they are funding the scheme in partnership with the Council then a joint venture should be established to develop the project
- Whether the project is developed through a design and build or DBOM, should be considered in line with the appetite for risk from the key partners.
- the need to deliver a commercial return and surplus to fund capital will be key in any future operational model

3.54 We explore in the next section the financing and the affordability of the scheme, predominantly through prudential borrowing.

SECTION 4 – FINANCING AND AFFORDABILITY

Introduction

4.1 This section seeks to establish the long term financial implications for the development of the new facility and in particular how the Council will afford any redevelopment, building on the work undertaken in earlier reports, updated for any revised facility mix and design, capital costs and business plan.

4.2 The approach we have taken is to consider the future whole life costs of operating the proposed new development in Net Present Value (NPV) terms and then compare the various options. Option 1 is used as the base cost which would be the costs the Council would have to incur if RPLC was to continue to operate, as without investment in condition survey works then there is a real risk that RPLC will have to close in the short term.

(Note: Net Present Value is used to assess a series of future financial payments or receipts which may be different to each other but enables the value to be expressed at the current value, thus enabling accurate comparison of different future financial projections)

4.3 To assess the affordability of each of the options we have thus compared the future costs (in NPV terms) of all the options to identify the lowest cost. We have used NPV calculations to compare the various options with like for like as the cash flows are over different time periods and frequency.

4.4 The Council will then have a clear indication of both the future costs of the various options and how these can be afforded. We also identify in the analysis what level of prudential borrowing can be provided towards the future redevelopment.

4.5 We set out in this section a summary of the financial implications for each of the core options and also a number of scenarios, as follows

- **Core Options**

- **Option 1** – minimum investment to undertake condition survey works with no significant improvement to the facilities or additional facilities.
- **Option 2** – refurbishment of the existing facility to provide enhanced facilities, including a new reception and café, extended learner pool and fitness
- **Option 3** – New build facility on the existing site at North Walls
- **Option 4** – New build facility at the Bar End site utilising the old depot and part of the Garrison ground
- **Option 5** – New build facility at the Bar End site utilising Council land, Hampshire County Council land and University of Winchester land.

- **Additional Options**

- 50 metre pool options for each of Options 3, 4 and 5
- 12 court Sports Hall option for each of Options 3, 4 and 5
- Commercial pricing for the core options

4.6 Appendix B summarises the detailed assumptions underpinning the core options and we also identify a number of sensitivity analyses for each of the core options.

SECTION 4 – FINANCING AND AFFORDABILITY

4.7 The section is structured as follows

- A summary of the capital costs and potential funding opportunities for each of the core options
- An overview of the revenue projections for each of the core options and the impact of the additional options
- Financial modelling to present the NPV and whole life costing for each of the core options, together with the impact of additional options.

4.8 We provide detailed assumptions and financial models in Appendices F and G to support the overview presented in this section.

Capital Costs & Potential Funding

4.9 We summarise in the table below the capital costs for each of the core options, together with potential funding sources for capital, with further detail provided on these assumptions in Appendix F.

Table 4.1 – Capital Costs & Funding

(£'million)	Option 1	Option 2	Option 3	Option 4	Option 5
Capital Cost					
Build Costs	4.19	5.27	27.586	25.183	24.698
Additional Inflation		0.74		1.007	0.988
Land Costs				3.0	
Total Capital	4.19	6.01	27.586	29.19	25.686
Capital Funding					
WCC Capital	4.19	4.19	4.19	4.19	4.19
University				6.0	6.0
Sport England			1.0	1.0	1.0
Pinder Trust			1.0	1.0	1.0
Other				1.0	1.0
Old Depot (loss)				(3.0)	
Total Funding	4.19	4.19	6.19	10.19	13.19
Net Capital Required	-	1.82	21.396	19.0	12.496

4.10 The costs presented above are based on the following key assumptions (with further detail in Appendix F)

- Options 1 & 2 capital costs have been based on the condition survey undertaken in 2013, which identified the work required to ensure that RPLC remains operational. In addition the Council has undertaken an assessment of the potential enhanced refurbishment costs for Option 2. For both of these options a further £5 million has been factored in for investment in Year 15 (as the condition survey is only for a 15 year life) which is not illustrated in the table above.
- Options 3, 4 and 5 capital costs have been based on the costs presented in the Roberts Limbrick feasibility designs and costings undertaken.

SECTION 4 – FINANCING AND AFFORDABILITY

- Base costs have been inflated to the commencement of construction (estimated to be September 2016).
- Land acquisition costs are based on estimates to procure land from Tesco (option 4).
- The loss of capital receipts for the old depot site of £3.0 million has been factored into Option 4, which is the only options for which the Council would not be able to achieve these receipts
- We have allocated the potential university funding to both option 4 and 5 , as they have indicated that they would fund a facility at Bar End, however the option 5 site is likely to be preferable in that it is adjacent to existing University facilities and land
- WCC funding is the amount identified in the Council's capital programme to undertake condition survey works
- Other funding levels have been estimated based on discussions with key stakeholders and been estimated at the lower end of any discussions. Funding from the University has only been allocated to Option 5 as this is the indication, however it may be possible to secure funding from the University for Option 4 if it is developed in the right way.

4.11 It can be seen from the table that there is a significant amount of net capital required to be funded in Options 3 and 4 at circa £20 million, whilst Option 5 requires circa £12 million and Options 1 and 2 require less capital. We explore the opportunity to fund these levels of capital through invest to save opportunities through using revenue improvements later in this section.

4.12 It should also be recognised that there are other opportunities for further funding as illustrated below, which haven't been included in the financial modelling

- Capital receipts from sale or development of land, including
 - The existing North Walls site which is estimated to generate £2 million of receipt and would apply to Options 4 and 5.
 - The depot site, which is estimated to generate £3 million of receipt and would apply to Options 1,2,3 and 5. Loss of this receipt has been factored into Option 4 above

4.13 We have also considered the capital costs associated with the additional scenarios and present below the capital costs in each of these scenarios.

SECTION 4 – FINANCING AND AFFORDABILITY

Table 4.2 – Additional Scenarios (Capital Costs)

Scenarios (£'million)	Option 1	Option 2	Option 3	Option 4	Option 5
Total Capital Cost					
Base Capital Cost	4.19	6.01	27.586	29.19	25.686
50 metre pool	N/A	N/A	28.986	30.59	27.086
12 court sports hall	N/A	N/A	28.856	30.46	26.956
Net Capital Required					
Base Net Capital	-	1.08	21.396	19.0	12.496
50 metre pool	N/A	N/A	22.796	20.4	13.896
12 court sports hall	N/A	N/A	22.666	20.27	13.766

4.14 The key assumptions used for each of these costs identified above are as follows

- An additional £1.4 million for the 50 metre pool as per the Roberts Limbrick study
- An additional £1.27 million for the 12 Court Sports Hall, as per Sport England guidance

4.15 It can be seen that there is the need for additional capital to deliver the additional facilities and although we haven't factored in to our financial analysis additional funding, it may be that additional funding is possible from the University and Fit 4 the Future.

4.16 There could also be the potential to reduce the facility mix to deliver an affordable facility, such as a 25 metre, 8 lane pool.

4.17 The capital costs are only one element in the overall financing analysis and whole life costings. We review potential revenue projections next prior to considering the overall financing costs.

Revenue Projections

4.18 Appendix G present detailed revenue projections for each of the core options and the potential impact for the additional scenarios on the revenues. In all cases we have considered the initial five year projections which will enable the option to reach maturity of operation.

4.19 It should be noted that the projections for Options 4 and 5 are the same as they are the same facility mix and in same location at Bar End. The key difference for Option 3 is the slightly smaller fitness facility, but otherwise we anticipate the same revenues, which is supported by discussions with PfPL who indicated they would apply the same revenues to either site (Bar End or existing).

4.20 Table 4.3 below summarises the first five year revenue projections for each of the options, which is the overall position to include Council and Operator elements.

SECTION 4 – FINANCING AND AFFORDABILITY

Table 4.3 – Revenue Projections

Option 1 - Condition Survey Work

£'000's	Year 1	Year 2	Year 3	Year 4	Year 5
Income	2,619	2,586	2,554	2,516	2,478
Expenditure	2,681	2,681	2,681	2,681	2,681
Net Surplus/ (Deficit)	(62)	(95)	(127)	(165)	(202)
Capital Depreciation	696	696	696	696	696
Lifecycle Costs	42	42	42	42	42
Total Revenue Cost	800	833	865	903	940

Option 2 – Enhanced Refurbishment

£'000's	Year 1	Year 2	Year 3	Year 4	Year 5
Income	2,873	2,889	2,906	2,919	2,919
Expenditure	2,747	2,747	2,747	2,747	2,747
Net Surplus/ (Deficit)	125	142	159	172	172
Capital Depreciation	696	696	696	696	696
Lifecycle Costs	60	60	60	60	60
Total Revenue Cost	631	614	597	584	584

Option 3 – New Facility (Existing Site – North Walls)

£'000's	Year 1	Year 2	Year 3	Year 4	Year 5
Income	2,729	2,856	2,964	3,006	3,010
Expenditure	2,401	2,402	2,423	2,432	2,433
Net Surplus/ (Deficit)	327	453	541	574	578
Capital Depreciation	689	689	689	689	689
Lifecycle Costs	276	276	276	276	276
Total Revenue Cost	638	512	424	391	387

Option 4 – New Facility (Bar End – Garrison/Depot)

£'000's	Year 1	Year 2	Year 3	Year 4	Year 5
Income	2,845	3,081	3,202	3,248	3,253
Expenditure	2,423	2,445	2,469	2,479	2,480
Net Surplus/ (Deficit)	421	635	732	769	773
Capital Depreciation	654	654	654	654	654
Lifecycle Costs	262	262	262	262	262
Total Revenue Cost	495	281	184	147	143

Option 5 – New Facility (Bar End – Council/University/HCC land)

£'000's	Year 1	Year 2	Year 3	Year 4	Year 5
Income	2,845	3,081	3,202	3,248	3,253
Expenditure	2,423	2,445	2,469	2,479	2,480
Net Surplus/ (Deficit)	421	635	732	769	773
Capital Depreciation	642	642	642	642	642
Lifecycle Costs	257	257	257	257	257
Total Revenue Cost	478	264	167	130	126

4.21 The key assumptions that have been used to underpin the revenue projections are presented in detail in Appendix F, with the key features set out below

SECTION 4 – FINANCING AND AFFORDABILITY

- Options 1 and 2 capital depreciation is based on existing budget costs, with the other Options based on the capital costs assuming a 40 year life
- Life cycle costs are based on 1% of capital cost, which is comparable with market positions
- The revenue projections set out above are based on market positions which would be expected from a hybrid trust bidding for the operation, but allowing in Options 4 and 5 for use by the University in accordance with the approach outlined in the consultation.

4.22 It can be seen from the table that there is the opportunity to significantly improve the revenue position of RPLC through a new build development, with options 4 and 5 delivering a cost of £126,000 - £147,000 including lifecycle costs and capital depreciation and option 3 delivering a cost of £387,000 including lifecycle costs and capital depreciation. The existing cost of operating RPLC is £763,603 including maintenance and capital depreciation

4.23 Option 1 is likely to continue to increase in cost due to the deterioration of the facility and no significant enhancement of the facility. However depending on the existing contract with PfPL this increased cost may sit with either the Council or PfPL until 2023.

4.24 We provide below some examples of other facilities which have recently been developed and secured operators through long term contracts, to illustrate the current operating position in the market.

Table 4.4 – Market Examples

Facility	Facility Mix	Revenue Surplus / (Deficit) - £'000's	Year
Hinckley Leisure Centre	<ul style="list-style-type: none"> • 25 m, 8 lane pool and learner pool • 8 court sports hall • health & fitness • climbing 	£900,000 surplus including life cycle costs but excluding capital depreciation	2014
Local Authority (Midlands)	2 facilities including 2 25 metre 6 lane pools, 8 court sports hall and 150 station gym	£600,000 surplus including life cycle costs but excluding capital depreciation	2014

4.25 In addition to this Sport England have developed guidance and business plans for affordable facilities. Based on a facility mix of 25 metre 8 lane pool, 5 court sports hall, 100 station gym they suggest the operating position should be a surplus of £217,455 per annum.

4.26 We have also considered a range of sensitivities for each option and present in the table below the potential impact on the revenue position in a mature year for a number of scenarios, excluding lifecycle costs and capital depreciation.

SECTION 4 – FINANCING AND AFFORDABILITY

Table 4.5 – Revenue Position – Scenarios

Scenarios	Year 5 Operation (£'000's)				
	Option 1	Option 2	Option 3	Option 4	Option 5
Base Surplus/(Deficit)	(202)	172	578	773	773
5% increase in income	(79)	318	728	936	936
5% decrease in income	(327)	25	427	611	611
5% increase in expenditure	(337)	34	455	649	649
5% decrease in expenditure	(69)	309	699	897	897

4.27 It can be seen that in most scenarios, there is still a significant surplus generated from a future operation which involves a new build development. Within the appendices there are further sensitivities around key activity areas.

4.28 We have also modelled in Appendix G the revenue positions for a 50 metre pool, 12 court sports hall and commercial pricing. We summarise in table 4.6 below the impact on a mature year of operation.

Table 4.6 – Facility Mix Scenarios

Scenarios	Year 5 Operation (£'000's)				
	Option 1	Option 2	Option 3	Option 4	Option 5
Base Surplus/(Deficit)	(202)	172	578	773	773
50 metre pool	N/A	N/A	630	826	826
12 court Sports Hall	N/A	N/A	597	793	793
Commercial Pricing	(93)	296	709	905	905

4.29 It can be seen that all of the additional scenarios have the potential to deliver additional surplus, but will require additional capital (with the exception of commercial pricing).

Financial Modelling

4.30 We have assessed the future whole life costs for each of the options for both capital and revenue.

4.31 To enable the effective like for like comparison of these costs we have developed an NPV assessment of the future costs, which also allows for a build up of the annual revenues over the first 5 years. The NPV assessments are presented in detail in Appendix H and summarised in the table below.

4.32 All of the scenarios presented are based on a 25 year assessment of the operating and lifecycle costs, together with the net capital investment required, which has been factored in either through the Council using borrowing to fund the capital or its own reserves.

SECTION 4 – FINANCING AND AFFORDABILITY

Table 4.6 – Future Costs - NPV Comparison

NPV (£'000's)	Option 1	Option 2	Option 3	Option 4	Option 5
Council borrowing capital required	17,229	15,625	30,176	23,675	16,601
Council using its own reserves	19,242	17,138	35,276	28,526	19,792

4.33 It can be seen from the table that options 1, 2 and 5 deliver a better NPV cost to the Council in comparison with Options 3 and 4, based on the capital costs and revenue projections identified earlier. The difference in NPV cost is circa £15 - 20 million, with Option 2 delivering the lowest NPV cost at £15.6 million, followed by Option 5 at £16.7 million.

4.34 Option 1 would in effect be the cost of continuing to provide RPLC as the requirement for condition survey investment is needed if the facility is to continue to operate. Thus Option 1 can be considered the existing cost and both Options 2 and 5 are comparable.

4.35 In addition to the core options presented above we also summarise below the NPV for the additional scenarios below.

Table 4.7 – Additional Scenarios – NPV Costs

NPV - £'000's	Option 1	Option 2	Option 3	Option 4	Option 5
Using Council Borrowing					
50 metre pool	N/A	N/A	30,128	24,543	17,437
12 court sports hall	N/A	N/A	30,474	24,427	17,481
Using Council Reserves					
50 metre pool	N/A	N/A	35,561	29,750	20,985
12 court sports hall	N/A	N/A	35,876	30,096	21,330

4.36 All of these scenarios are slightly more expensive than the core options, principally due to the additional capital.

4.37 For each of the core options we also identify whether the revenue savings presented can fund the capital borrowing required through using prudential borrowing, by comparing the existing costs with the future costs to identify the savings generated, which can then be used to fund the capital borrowing. We summarise this in the table below for each of the core options.

SECTION 4 – FINANCING AND AFFORDABILITY

Table 4.8 – Capital Funding

£'000's	Option 1	Option 2	Option 3	Option 4	Option 5
Net Initial Capital Required	-	1,823	21,396	19,000	12,496
Future Revenue (Year 5)	940	584	387	143	126
Savings/(Cost) on Existing	(176)	180	377	621	638
Amount of Capital funded through savings	-	2,760	5,800	9,550	9,815
Capital Surplus/(shortfall)	-	-	15,596	9,450	2,681

4.38 There is a significant shortfall for options 3 and 4 which is circa £10-15 million which would be required to be funded from either Council reserves or other sources. There is however the potential for smaller shortfalls with the other options and the potential to fund the capital required through the revenue savings identified.

4.39 The NPV assessments and the level of prudential borrowing are based on a number of assumptions which are presented in more detail in Appendix F but also summarised below.

- The discount rate is based on Treasury Green Book guidance at 3.5%
- Capital depreciation has been included in the financial models
- Use of Council capital is factored in at 1.7% loss of interest
- The cost of borrowing £1 million is circa £65,000 through prudential borrowing based on a 25 year loan.

4.40 Options 1, 2 and 5 are the most cost effective options, principally due to the lower net capital requirement and (in the case of option 5) the enhanced revenue position. However Options 1 and 2 will cost more to operate and will effectively be a refurbishment of the existing facility, thus not resolving some of the long term issues with the building and also will not deliver on the future facility needs for Winchester.

4.41 In addition to the scenarios presented above there are opportunities to reduce the NPV for the options through use of capital receipts as identified earlier in this section.

Summary

4.42 We have in this section presented a range of different scenarios for each of the options and illustrated the NPV costs of each of the options, which suggests that options 1, 2 and 5 have the lowest NPV costs.

4.43 We consider the impact of the financing options in the next section.

SECTION 5 – CONCLUSIONS AND WAY FORWARD

A Range of Options

- 5.1 Previous studies have identified the need for new sports and leisure facilities in Winchester to meet the future needs of the population, together with a number of design options for a new facility, located either at the existing site or at Bar End.
- 5.2 Consideration has also been given to the refurbishment of the existing facility, through undertaking condition survey work or enhancing the facility.
- 5.3 We have in this report explored the potential capital costs, future revenue costs and financing options open to the Council which have identified 5 different core options, as summarised below, with a number of additional scenarios based on different facility mixes.
- **Option 1** – minimum investment to undertake condition survey works with no significant improvement to the facilities or additional facilities.
 - **Option 2** – refurbishment of the existing facility to provide enhanced facilities, including a new reception and café, extended learner pool and fitness
 - **Option 3** – New build facility on the existing site at North Walls
 - **Option 4** – New build facility at the Bar End site utilising the old depot and part of the Garrison ground
 - **Option 5** – New build facility at the Bar End site utilising Council land, Hampshire County Council land and University of Winchester land.
- 5.4 Additional scenarios include different pool sizes (including a 50 metre pool) and a larger sports hall.
- 5.5 We summarise the costs of each of the core options within the table below, including the NPV for each of the options.

SECTION 5 – CONCLUSIONS AND WAY FORWARD

Table 5.1 – Financial Implications

	Option 1	Option 2	Option 3	Option 4	Option 5
Capital Analysis (£'m)					
Total Capital Cost	4.19	6.01	27.586	29.19	25.686
Total Funding	4.19	4.19	6.19	10.19	13.19
Net Capital Required	-	1.82	21.396	19.00	12.496
Revenue Analysis (£'000's)					
Net Revenue (year 5)	940	584	387	143	126
Savings on Existing	(176)	180	377	621	638
WCC borrowing (£'m)	-	2.76	5.8	9.55	9.82
Capital Shortfall/ (Surplus) - £'m	-	-	15.60	9.45	2.68
NPV (Borrowing) (£'m)	17,23	15,63	30,18	23,68	16,60
NPV (Capital Reserves) (£'m)	19,24	17,14	35,28	28,53	19,79

- 5.6 Based on the financial analysis Option 2 (enhanced refurbishment) has the lowest NPV, however this does not provide any significant improvements to the facility mix and leaves little opportunity for further expansion of sports and leisure facilities to meet the needs of the future population. There is also significant risk that there is a major failure with the building.
- 5.7 Option 5 however is circa £1 million higher in NPV terms than Option 2 but in addition brings with it the delivery of the facility mix identified as required for the future population and also enables there to be the potential for expansion of facilities at the Bar End site in the future.
- 5.8 There is also the opportunity for Option 5 to use capital receipts from both the depot site and the existing site to support the capital, however we have not factored these into the financial analysis presented above.

Options Compared

- 5.9 We have compared the various options across a range of different factors which include financial and other aspects and summarise these in the table below.

SECTION 5 – CONCLUSIONS AND WAY FORWARD

Table 5.2 – Options Compared

Area	Option 1	Option 2	Option 3	Option 4	Option 5
NPV (£'m)	17.23	15.63	30.18	23.68	16.60
Participation Increase	-1.1%	9.4%	20.8%	29.1%	29.1%
Environmental	X	✓	✓✓	✓✓	✓✓
Stakeholder Need	X	X	X	✓	✓✓
Risk Transfer	X	X	✓✓	✓✓	✓✓
Long term Solution	X	X	✓✓	✓✓	✓✓
Future Expansion	X	X	X	✓✓	✓✓

5.10 It can be seen from the table above that Option 5 compares most favourably across the areas, as follows

- Option 5 is the second lowest NPV cost and is lower than the existing cost (option 1)
- Participation increase is significant for Options 4 and 5, with Option 1 and 2 demonstrating either a reduction in participation or relatively modest increase
- The new build options (3, 4 and 5) all have the potential to deliver a more energy efficient building and contribute to the environmental improvements
- Stakeholders have clearly identified Bar End (Options 4 & 5) as the preferred location
- There is greater opportunity to transfer risk under the new build options, and these provide a longer term solution
- Options 4 and 5 do also offer greater opportunities for further expansion of facilities if required

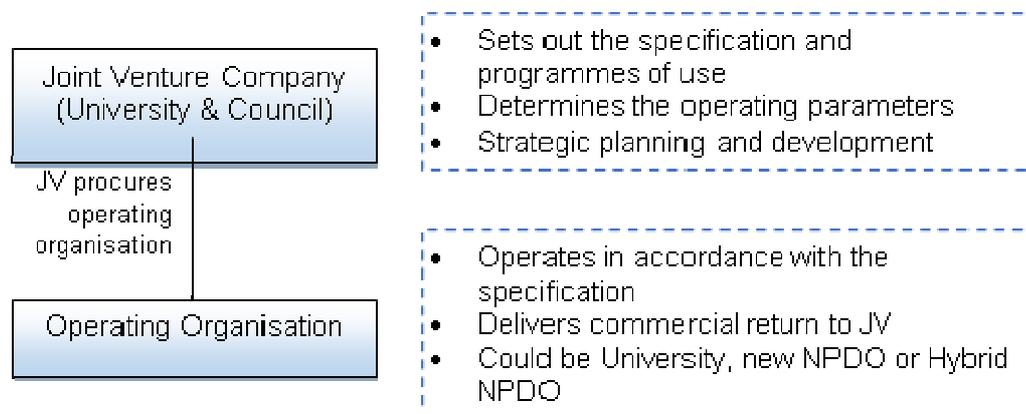
5.11 We therefore **recommend that the Council progress with Option 5 as the preferred option**, with Option 2 as a fall back option if it cannot be delivered. Consideration should also be given to the exact siting of the facility at Bar End, which may lead to an option which takes into account some of the locational aspects of Option 4.

Governance and Operating Model

5.12 We have identified a number of operating and governance models and recommend that if Option 5 is progressed the Council seek a joint venture with the University as set out below

SECTION 5 – CONCLUSIONS AND WAY FORWARD

Figure 6.1 – Future Governance



5.13 This would enable both partners to deliver on their key outcomes.

Way Forward

5.14 If the Council agree with our recommendation to progress with Option 5 as the preferred option then we suggest that the Council commit to work in partnership with the University to deliver the new facility at Bar End, based on the design and facility mix presented.

5.15 However as part of the design development and future delivery, we recommend that the Council and the University commit to the essential core facilities with the opportunity for additional facilities to be brought into the mix, through a long term phased scheme.

5.16 We set out below an outline action plan and timetable for the development of the project over the next 12 months.

Table 5.3 – Action Plan

Key Actions	Timescale
a. Council and University commit to working in partnership and develop heads of terms to cover <ul style="list-style-type: none"> • Facility Mix and Funding Levels • Key access and user requirements • Governance models and future operating approach • Approach to consultation with other key stakeholders 	September – December 2015
b. Explore potential capital receipts from development of the old depot and North Walls site.	September 2015 – March 2016
c. Undertake acquisition of land (such as HCC and/or Tesco land) if required	September 2015 – March 2016
d. Design development based on Option 5, to include consultation with stakeholders and wider public	December 2015 – January 2016

SECTION 5 – CONCLUSIONS AND WAY FORWARD

Key Actions	Timescale
e. Funding Applications and approaches to potential funders to seek confirmation of funding including <ul style="list-style-type: none"> • Pinder Trust • Winchester SALT/Fit 4 the Future • Hampshire County Council • Sport England 	January – March 2016
f. Establishment and procurement of operating partner	July 2016 – July 2017
g. Detailed design ready for construction, to include planning application	March – September 2016
h. Construction commences	September 2016
i. New Centre open	April 2018

5.17 Both the Council and the University are key stakeholders and the major funders of the new facility and as a result if the facility is to be delivered then both partners need to work together and we recommend that the key parameters and principles set out below should be recognised by both partners in developing the partnership

- The new facility should be branded as a partnership between the Council and the University, with both partners being able to present it to the student population and the wider community population. Consideration should be given to the naming of the facility, such as The Winchester Sports Park, which would enable the facility to be promoted and deliver the right approach.
- Governance of the new facility should be by the University and the Council, but recognising that the actual day to day operating model could be delivered in a number of ways, with either a partner or the University operating, but there is a need to ensure that future revenue surpluses are needed to fund some of the initial capital.
- Both parties will have access requirements for students and the wider community which should be built into any governance arrangements.
- Both parties will have a limited amount of capital which should be set out at the beginning of the project to deliver an agreed facility mix, but through the process if more funding becomes available there may be the opportunity to improve the facility mix

5.18 We have identified the opportunity for the Council to progress with Option 5 in developing a new facility at Bar End in partnership with the University which will deliver on the sporting needs and we believe is fundable within the Council's affordability levels and significantly reduces the long term revenue costs.

5.19 The next steps are for the University and the Council to commit to the partnership and deliver an exciting new facility for Winchester.