

**BABERGH DISTRICT COUNCIL**

**FROM:** Project and Programme Executive, Head  
of Contract and Asset Management,  
Head of Finance

**REPORT NUMBER**     **G73**

**TO:**     STRATEGY COMMITTEE

**DATE OF MEETING:** 16 August 2007

**HADLEIGH SWIMMING POOL**

1.     **PURPOSE OF REPORT**

- 1.1     To advise Members of the findings of the Stage 2 (detailed drawings and costings) report undertaken by SMC Charter Architects in respect of two options for a new Hadleigh Swimming Pool. Option 1 is for a 25m x 6 lane pool and Option 2 has the addition of a fitness suite and dance studio.
- 1.2     The attached Outline Business Case (OBC) raises serious concerns as to the affordability of a new pool and this would have a significant upwards impact on Council Tax levels. Options in relation to potential ways forward are detailed for consideration.

2.     **RECOMMENDATIONS**

- 2.1     That the Council do not proceed with the construction of a new 25m x 6-lane swimming pool in Hadleigh.
- 2.2     That the Committee determines a way forward taking into account the options at paragraph 5.5 and the views of Hadleigh Swimming Pool Steering Group set out in paragraph 5.6.

Subject to the decision at paragraph 2.2 the committee may need to make a recommendation to the Council.

3.     **FINANCIAL IMPLICATIONS**

- 3.1     The Outline Business Case sets out the position, including details of risks and other issues.
- 3.2     In summary the key figures are:-

	<u>Estimated capital cost*</u>	<u>Estimated annual revenue cost</u>
Option 1 (25m x 6 lane pool)	£5.5m	£245,000
Option 2 (25m x 6 lane pool plus fitness studio and dance suite)	£7.2m	£64,000

\* Based on scheme completion in January 2010.

- 3.3     The annual cost of running the current Hadleigh Pool is £60,000. In addition to the running costs, there would be significant borrowing costs, which are set out in the affordability assessment –

see paragraphs 4.7 to 4.10 of the OBC. This assessment raises serious concerns and proceeding would have a significant upwards impact on Council Tax levels.

- 3.4 The wider financial issues and ability to fund other Council priorities are also highlighted in the OBC. The estimated Council Tax impact is as follows and this is based on the assumption that **all** of the potential capital receipts of £3.2m and earmarked capital reserves of £0.8m (i.e. total of £4.0m) are used for this one project:-

	Option 1 %	Option 2 %
Borrowing* and running costs	7.1	6.5
Uplift to Jan. 2010 capital costs	+0.7	+0.7
Lost interest on use of earmarked capital reserves	+1.0	+1.0
Total	8.8	8.2

\*Assumes mid-point or 'median' capital cost between now and Jan. 2010.

- 3.5 Based on the affordability assessment set out in the business case, the average cost for every individual lesson or casual swim (total 85,000 per annum) to Babergh Tax payers would be £3.27.
- 3.6 There is no provision in the capital programme for the further feasibility work detailed in the options set out in this report (paragraph 5.7).

#### 4 **RISK ASSESSMENT**

- 4.1 A detailed risk assessment is contained within the outline business case.

#### 5. **KEY INFORMATION**

- 5.1 The key issue for a new pool has always been how to raise the necessary funds in a way that is sustainable and proportionate to the Council's wider responsibilities and priorities. In June 2006, following decisions to commence negotiations for the sale of Babergh-owned land providing access to the proposed superstore at Brett Works and to sell East House (with proceeds from that building being invested in services within Hadleigh), Babergh agreed to commit £30,000 to a feasibility study to look at the costs associated with building an enhanced brand new pool.
- 5.2 A thorough investigation showed that no guaranteed partner funding was forthcoming. This was on the basis of an estimated cost of £3.25M, including fees. This figure was established using an outline accommodation schedule and preliminary cost estimates from the Hayley Sharpe consultant's report on Hadleigh Leisure Needs (2002) and making an estimate for inflation up to 1<sup>st</sup> quarter 2008.
- 5.3 Following receipt of a stage one report (which indicated an estimated capital cost for a 25m x 6 lane pool on the existing site as £4.44M) the Hadleigh Swimming Pool Steering Group asked the architect to undertake a stage two report (detailed drawings and costings) for:-

- Option 1 – a 6 lane, 25 metre pool

- Option 2 – a 6 lane, 25 metre pool with a fitness suite, dance studio and dry changing rooms.

5.4 At the time, Babergh made clear its concerns at the scale of the challenge for such a small and financially disciplined council in finding the indicated extra £1.2M over and above the original figure of £3.25M.

5.5 The following remaining options are put forward for consideration by Members:-

#### Option 1

**Commission architects to undertake a feasibility study on what can be delivered with the estimated capital of £3.25M.** The feasibility will take two months and cost £10,500. The capital cost of a community pool (typically 20m x 4 lane) will be less than a 25m x 6 lane pool. However, given the high capital cost of a 25m x 6 lane pool and the minimal savings likely as the result of the reduction in the pool space, it is considered extremely unlikely that a community pool will be achieved within the constraints of £3.25M. Additionally, it would not change the scenario whereby all of Babergh's anticipated capital receipts will be consumed on just one project. Revenue savings are likely to be negligible compared to a 25m x 6 lane pool (i.e. not much less than £245,000 pa). This option would still, therefore, require significant funding from Council Tax. Accordingly, this option is not recommended.

#### Option 2

**Undertake a feasibility study which will reconsider the repair and refurbishment of the facility** using part of Babergh's capital receipts to secure a 15 year life. The feasibility will take four months and cost £18,500. This option carries a severe "health warning" over value for money and the risks of further costs arising during the 15 years hoped for extended lifecycle and the existing problems of layout etc. will still remain. Further work could firm up the exact costs with a detailed risk assessment. The time frame involved will make it difficult to feed into Babergh's 2008/09 service and financial planning process. There is also a risk that any resources diverted towards this option might have to be written off if the pool tank fails and cannot be repaired. N.B. the estimated cost of this option in May 2000 was between £1.4M and £1.7M depending on what facilities were included.

#### Option 3

**Establish a mechanism for investing funds in alternative facilities.** Maintain the pool until such time as the pool is uneconomically viable. Hopefully technical advice would be such that it would be possible to set a timetable for the closure of the pool, (working with partners to secure alternative provision for users wherever possible). As part of this process Babergh would work with South Suffolk Leisure to ensure an orderly closedown, which provided adequate advance warning to users and provided proper compensation to South Suffolk Leisure.

The proposal to construct a new pool was to meet the Council's corporate objectives relating to healthy living and giving easy, convenient access to quality services. Given the Council's commitment to invest the receipts from the sale of East House and adjoining land towards the provision of facilities in Hadleigh for the benefit of the community, delivery of these objectives to the town could be achieved by different means. Hence under this option there would need to be a debate on how best new investment could be made into affordable services for Hadleigh which met community needs and achieved the corporate priorities of Babergh District Council.

5.6 The SMC Charter Architect report and an officer report together with the attached Outline Business Case was submitted to the Hadleigh Swimming Pool Steering Group (4 Babergh Councillors, 2 Hadleigh Town Councillors and 2 South Suffolk Leisure trustees) at its meeting on 7 August 2007 in order that they could fully consider the implications prior to it being discussed by Strategy Committee. Their views are as follows:-

The Steering Group has given careful consideration to the SMC Charter Architects report and a paper from Babergh officers which included an outline business case. The Steering Group also discussed the three options which are detailed in this report. The Steering Group has the following views:-

- (1) The Steering Group accept that a new 25m x 6 lane pool for Hadleigh at a cost of between £5.5M and £7.2M is unaffordable.
- (2) With regard to the three remaining options, the Steering Group would like Babergh to pursue a variation of Options 2 and 3, as follows:-
  - Stage 1 involves two parallel investigations:-
    - to undertake a feasibility study on a stand alone community/leisure building, adjacent to, but not adjoining the current pool. The group felt possible facilities in such a building could be a fitness suite, dance studio and a meeting room for community/youth groups
    - to undertake a structural assessment of the pool tank, with particular emphasis on the location of steel reinforcement in the tank floor.
  - Stage 2 involves specific further actions dependent upon the outcomes of the pool tank structural assessment:-
    - if the structural assessment finds that the tank is likely to have a life expectancy of 10 years or more, undertake a feasibility study to identify the cost of a refurbishment of the existing facility. Such a study needs to be co-ordinated alongside the one into the possible standalone facility
    - if the structural survey finds that the tank is unlikely to have a life expectancy of 10 years or more, further consideration needs to be given to a programmed approach to shutting the facility. Such a programme needs to be co-ordinated alongside the one into the possible standalone facility.
- (3) If Babergh accepts this stepped approach all appropriate stakeholders will need to be included in any relevant consultations.
- (4) If Babergh accepts these views and proceeds accordingly, the Steering Group request that its terms of reference be extended to enable it to consider the above studies, and make comments on them to Babergh District Council.

5.7 Officer Notes:

- (1) The costs of the above proposals are £8,000 for the structural assessment of the pool tank, £16,000 for the feasibility study for the refurbishment of the pool (including capital and running costs) and £21,000 for the study on the standalone community building. The total cost is £45,000 which could be funded from the earmarked capital reserve.

- (2) The refurbishment of the existing facility will involve part-demolition and reconstruction of the building except for the pool tank and its enclosure, and the renewal of all mechanical and electrical equipment.
- (3) For both the refurbishment and the community/leisure building there would need to be a detailed Outline Business Case prepared which would need to assess the contribution of the proposals to the Council's Corporate Objectives, the identified need for such facilities and the affordability (capital and revenue) of the proposals.
- (4) The investigation into the possible range of facilities in the community building would include the canvassing of stakeholders, including Hadleigh Town Council and South Suffolk Leisure.

6. **APPENDICES**

- (a) Outline Business Case.

7. **BACKGROUND PAPERS REFERRED TO:**

SMC Charter Architects Feasibility Study.

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# **HADLEIGH SWIMMING POOL**

## **OUTLINE BUSINESS CASE**

### **SYNOPSIS**

- This outline business case explains the reasons for exploring the costs of a proposed new swimming pool in Hadleigh.
- It sets out the estimated capital and revenue costs for two options, prepared by external consultants, and details the risks of building a new pool (under either option).
- It concludes that building a new pool raises serious concerns as to its affordability and would have a significant upwards impact on Council Tax levels
- It also explains the wider issues facing the Council in terms of its limited financial resources and the competing demands on those resources.

## 1. **BACKGROUND**

- 1.1 Babergh's Best Value Review of Cultural Services 2004 showed the need for a new pool, although it ranked third in terms of value for money against other competing leisure needs. Babergh has invested in the top two priorities (dual use sports centres and arts development) and accepted the need for a new pool in Hadleigh as the third priority – resources allowing.
- 1.2 The proposal to construct a new pool contributes to the delivery of the Council's Corporate Objectives of:-
- Promoting healthy living and reducing health inequalities
  - Giving easy, convenient access to quality public services
- 1.3 As part of Babergh's 2005 State of the District debate, all residents were asked a series of questions as to the funding of a new Hadleigh Pool by above-inflation Council Tax increases. Over 6000 responses were received, with just 24% indicating that they would be willing to pay more. That figure fell to 18% if such funding would also mean a reduction in resources available for other services.
- 1.4 The key issue for a new pool has always been, therefore, how to raise the necessary funds in a way that is sustainable and proportionate to the Council's wider responsibilities and priorities. In June 2006, following decisions to commence negotiations for the sale of Babergh-owned land providing access to the proposed superstore at Brett Works and to sell East House (with proceeds from that building being invested in services within Hadleigh), Babergh agreed to commit £30,000 to a feasibility study to look at the costs associated with building an enhanced brand new pool.
- 1.5 A thorough investigation showed that no guaranteed partner funding was forthcoming. This was on the basis of a cost of £3.25M, including fees. This figure was established using an outline accommodation schedule and preliminary cost estimates from the Hayley Sharpe consultant's report on Hadleigh Leisure Needs (2002) and making an estimate for inflation up to 1<sup>st</sup> quarter 2008.
- 1.6 Following receipt of a stage one report (which showed the capital cost for a 25m x 6 lane pool on the existing site as £4.44M) the Hadleigh Swimming Pool Steering Group asked the architect to undertake a stage two report (detailed drawings and costings) for: -
- Option 1 – a 6 lane, 25 metre pool
  - Option 2 – a 6 lane, 25 metre pool with a fitness suite, dance studio and dry changing rooms.
- 1.7 At the time, Babergh made clear its concerns at the scale of the challenge for such a small and financially disciplined council in finding the indicated extra £1.2M over and above the original figure of £3.25M.

## 2. **OPTION APPRAISAL**

### OPTION 1

- 2.1 This is based on the construction of a new pool facility (main pool only) and demolition of the existing Hadleigh Swimming Pool on completion of the new facility. This option will require the relocation of the existing public play area and a new car parking and service area.

- 2.2 A traditional 25m x 6 lane pool will retain and possibly expand the existing swimming customer base but, as will be seen in the financial assessment, revenue costs to the Council are high. This is principally because the income earning potential is limited to wet side activities only.
- 2.3 The capital cost of this option is estimated at nearly £5.5M with the revenue cost to the Council (i.e. management fee to South Suffolk Leisure) likely to be around £245,000. This would be a substantial increase on the current annual cost of £60,000. Borrowing costs are in addition.
- 2.4 The capital cost for option 1 is a considerable increase on the stage one cost (£5.5M compared to £4.4M) and this is due to the following factors:-
- More detailed information on building layouts, hence greater level of detail for pricing.
  - Plant room increase in size due mainly to specification changes for air handling equipment.
  - Increased costs of all statutory authority services. All have to be upgraded and for some services diversion costs have been included. A new sub station and gas housing will be required.
  - Inflation costs due to the timescale for the project. It is estimated construction will not be completed until January 2010, at a time when there is great pressure on labour costs and materials in the region closer to the Olympics.

## OPTION 2

- 2.5 This is based on the construction of a new pool facility as above and additionally, a fitness suite, dance studio and changing accommodation, demolition of the existing Hadleigh Swimming Pool and new increased car parking and service area. This option would also require the relocation of the existing public play area.
- 2.6 However, the capital cost of this option is substantially higher at £7.2M with a revenue cost to the Council (i.e. management fee to South Suffolk Leisure) of around £65,000 p.a. The additional facilities are potentially high income earners which considerably reduces the amount of subsidy required from the Council. As with Option 1, Borrowing costs are in addition.

## 3. **RISK ASSESSMENT**

- 3.1 The risks are linked to Significant Business Risk No. 9 – Management of Major Programmes and Projects:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Required funds to complete the project exceed the estimated requirements outlined within the business case.	High	Critical	Ensure Town Council financial input. Rigorous monitoring and transferring the risk of project overrun to the contractor.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
Increasing revenue cost of borrowing (increasing interest rates).	Significant	Marginal	Arranging for fixed or capped borrowing. (This measure may be considered favourable in times of rising markets but not so when there are future interest rate cuts expected).
Commitment of significant resources to the project when the Council in facing financial pressures to meet its other current/future priorities, and/or reductions in Government grant.	High	Critical	Review of Council's medium/long-term corporate priorities and spending plans before deciding on any high levels financial commitments to a single project.
Customer/ public expectations- Citizens' response if a new pool is not commissioned.	Significant	Marginal/Critical	Explain to the public the cost and risks of the project for such a small and financially disciplined Council as Babergh, which has other pressures on its budget.

#### 4. **FINANCIAL ASSESSMENT/AFFORDABILITY**

##### CAPITAL AND REVENUE COSTS

- 4.1 A report (stage 2) on the capital and revenue costs, on a whole-life costing basis, has been prepared by SMC Charter Architects and Kay Business Support.
- 4.2 As mentioned in paragraph 3, the key financial costs, which are dependant on timing of any new build and further scrutiny, are summarised below:

	<b>Stage 1 Report</b>		<b>Stage 2 Report</b>	
	<b>Option 1</b>	<b>Option 2</b>	<b>Option 1</b>	<b>Option 2</b>
Estimated capital cost of construction at today's prices.	£4.11M	£6.33M	£4.97M	£6.58M
Estimated capital cost at scheme completion in January 2010.	£4.44M	£6.84M	£5.46M	£7.23M
Median costs - used for Borrowing/Council Tax purposes (See 5.7 below).			£5.2M	£6.9M
Estimated management fee to South Suffolk Leisure.			£245K	£64K

## FINANCING SOURCES

- 4.3 The estimated potential capital receipts from asset disposals by Babergh and other parties are £3.2M. The timing and certainty of these disposals and the capital receipts cannot be guaranteed.
- 4.4 In addition to these overall capital receipts, there is £0.8M in an earmarked capital reserve that could be used, potentially, for a Hadleigh Pool (or indeed any other projects to achieve corporate plan priorities as set out in the Council’s financial strategy).
- 4.5 Assuming all of this money is used for a pool, there is an estimated likely capital shortfall of up to between £1.5M and £3.2M. This would require the Council to commit **all** of the potential (but not guaranteed) £4.0M capital receipts and earmarked reserve for this one project.

## WIDER FINANCIAL ISSUES

- 4.6 The following needs to be taken into account in relation to the council’s current/future capital programme and financing requirements in considering the above:
- There is the “opportunity cost” of using the capital receipts and that earmarked reserve for the Hadleigh Pool as opposed to other capital projects i.e. all of this will be spent on one project.
  - The current 3-year General Fund capital programme has an estimated borrowing requirement of approaching £2.5M (excl. CAST – the borrowing costs for that are being paid for from reserves and ongoing efficiency savings).
  - The capital receipts and earmarked reserves could be used in part or full to reduce that borrowing requirement and help with the General Fund revenue budget.
  - The Council needs to review and decide whether they want to continue with the current level of General Fund capital programme.
  - The Council needs to consider how all of its current/future priorities can be funded.
  - The Council is facing the prospects of poor future annual Government Grant settlements and significant ongoing efficiency savings being necessary

## AFFORDABILITY ASSESSMENT

- 4.7 Subject to the above and using a median point between construction costs at today’s prices and January 2010 prices, the minimum potential annual borrowing costs and running costs and impact on Council Tax are as follows. Both options are considered to be unaffordable – although Option 2 is marginally the better option (both based on the above and on a whole life costing basis). More borrowing would be required if the January 2010 cost projection is used, which would add approximately 0.7% to the Council Tax increase:

	Borrowing £1.2M Option 1		Borrowing £2.9M Option 2	
	£000	C/Tax	£000	C/Tax
Annual borrowing costs	108	+2.6%	261	+6.4%
Net running costs	185	+4.5%	4	+ 0.1%
Total	293	+7.1%	265	+6.5%

4.8 In addition, there would be:

- The loss of interest on the use of the earmarked capital reserve, adding a further £40,000 (depending on interest rate levels) to the cost or an extra 1% to Council Tax
- Potential cost overrun and interest rate increases (see below)

4.9 Although there is the option, theoretically, of incrementally increasing Council Tax over a 3-year period i.e. by, say, approximately 2.5% per annum, that would be at the absolute limit of the council's financial capacity and strategy. This would leave very little scope, if any, to fund other priorities, and such an approach would require very careful consideration in the light of future Government grant and efficiency requirements.

4.10 This is not, therefore, a strategy that could be recommended and there is also the opportunity cost of using a significant amount of capital receipts and the earmarked reserve for one project. In addition, there are also cost overrun and interest rate risks. For example:

- A cost overrun of, say £1M (approx. 15% on Option 2) would add a further borrowing cost of £90,000 per annum and a further 2.2% to Council Tax
- The borrowing costs in the table are based on an interest rate of 4.9% for a 40-year loan. An interest rate increase or decrease of 0.5% would change the impact on the borrowing cost of a £2.9M loan by £15,000 per annum (0.3% on Council Tax)

## 6. **CONCLUSIONS**

6.1 A thorough investigation of the capital and revenue costs of a new pool (for two different options) raises serious concerns on affordability. Funding the cost of a new pool is likely to result in the Council not being able to achieve its financial strategy.

6.2 The Council may wish to consider other, more affordable options that achieve the Council's objectives and meet community needs.

## 7. **THE WAY FORWARD**

7.1 Options in relation to the potential ways forward are detailed in the main report.