

# **HARBOROUGH LEISURE CENTRE – OUTLINE BUSINESS CASE**

**A  
REPORT  
BY**



**MAY 2020**

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### Introduction

- I. This Outline Business Case (OBC) seeks approval for the redevelopment and provision of a new Harborough Leisure Centre (HLC) and considers a number of options, assessed through the five business case model used for major projects, which covers the following aspects
  - the **strategic case** section. This sets out the strategic context and the case for change, together with the supporting investment objectives for the scheme
  - the **economic case** section. This demonstrates that the organisation has selected the choice for investment which best meets the existing and future needs of the service and optimises value for money (VFM)
  - the **commercial case** section. This outlines the content and structure of the proposed deal
  - the **financial case** section. This confirms funding arrangements and affordability and explains any impact on the balance sheet of the organisation
  - the **management case** section. This demonstrates that the scheme is achievable and can be delivered successfully to cost, time and quality

### Strategic Case

- II. The development of a replacement or new HLC supports the delivery of a number of strategies at both national and local level, particularly
  - Sporting Futures – A New Strategy For An Active Nation – HM Government
  - Sport England Strategy – Towards an Active Nation (2016 – 2021)
  - Harborough Physical Activity Strategy (2019 – 2029)
  - Harborough District Council – Corporate Plan (2018 – 2021)
  - Draft Built Facilities Strategy for Harborough
  - Sport England Strategic Outcomes Planning Framework
- III. These strategies support the development of sport and leisure to deliver against a number of outcomes including
  - Physical Wellbeing
  - Mental Wellbeing
  - Social and Community Development
  - Individual Development
  - Economic Development
- IV. There is identified within the various strategies and approaches a real value in investing in sport and leisure whether it is through getting inactive people more active or delivering public health benefits and contributing to the health and wellbeing of the community. This has been reinforced through research from Sheffield University which suggests that for every £1 invested in sport this delivers a social return on investment of £1.91 through reduction in spending on health due to reduced risk, improved education performance, reduction in crime and improved health and wellbeing.

V. These outcomes will be supported through a redeveloped HLC and in particular the Draft Built Facilities Strategy has identified the need for enhanced facilities at HLC to deliver against these outcomes and support the future need for facilities, including

- Larger pool facilities (and 8 lane 25 metre pool)
- Enhanced Sports hall provision
- Additional health and wellbeing services (such as rooms and studio space)
- Increased health and fitness facilities

VI. The strategic case has identified the need for HLC and also potential need for enhanced facilities.

### **Economic Case**

VII. As a result of the strategic case a number of options have been developed for investment in HLC. The options have considered a number of parameters which include

- A redevelopment (combination of new build and refurbishment) or a total new build replacement of the Harborough Leisure Centre
- The future facility mix requirements and the consideration of a core facility mix (which wouldn't deliver on the needs identified) and an enhanced facility mix (which delivers on the needs identified within the Draft Built Facilities Strategy). The difference in these two facility mixes are summarised below and are relevant principally for the new build options.
- Site location and the potential to redevelop or build on the existing site or to relocate a new build option on a new location at a site to the north of Market Harborough

**Table A – Core v Enhanced Facility Mix**

<b>Facility</b>	<b>Core</b>	<b>Enhanced</b>
Swimming Pool	<ul style="list-style-type: none"> <li>• 6 lane, 25 metre Main Pool</li> <li>• Learner Pool</li> </ul>	<ul style="list-style-type: none"> <li>• 8 lane, 25 metre Main Pool</li> <li>• Learner Pool</li> </ul>
Sports Hall	<ul style="list-style-type: none"> <li>• 4 court Hall</li> </ul>	<ul style="list-style-type: none"> <li>• 8 court Hall</li> </ul>
Health & Fitness	<ul style="list-style-type: none"> <li>• 100 stations</li> <li>• 2 studios</li> </ul>	<ul style="list-style-type: none"> <li>• 120 stations</li> <li>• 3 studios</li> </ul>
Catering	<ul style="list-style-type: none"> <li>• Café</li> </ul>	<ul style="list-style-type: none"> <li>• Café</li> </ul>
Ancillary Spaces	<ul style="list-style-type: none"> <li>• Reception</li> <li>• Meeting/ Consultation Rooms</li> <li>• Space for key partners such as Health</li> <li>• Car Parking</li> </ul>	<ul style="list-style-type: none"> <li>• Reception</li> <li>• Health &amp; Community Facilities (meeting space, office space and studios)</li> <li>• Space for key partners such as Health</li> <li>• Car Parking</li> </ul>
<b>Total (GIFA)</b>	<b>Circa 4,000 sqm</b>	<b>Circa 5,000 sqm</b>

VIII. Each of these parameters has been considered and as a result this OBC has considered a number of options as set out below

**Table B – Redevelopment Options**

<b>Option</b>	<b>Description</b>
Option A – Do Nothing	<ul style="list-style-type: none"> <li>• Condition survey works only to take place to enable the facility life to be maintained</li> <li>• Additional investment in Year 10</li> </ul>
Option B – Redevelopment/Part New Build	<ul style="list-style-type: none"> <li>• Major redevelopment of the existing site to include additional facilities (such as studio space and health and fitness)</li> <li>• Enhancement of the overall development to create a ‘new’ facility</li> </ul>
Option C – New Build (Core) Existing Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the core facility mix on the existing site</li> <li>• Seeking continuity of use through building on the car park and then demolishing the existing site</li> </ul>
Option D – New Build (Core) Alternative Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the core facility mix on the existing site</li> <li>• Seeking continuity of use through building an alternative site to the north of Market Harborough and then demolishing the existing site</li> </ul>

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Option	Description
Option E – New Build (Enhanced) Existing Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the enhanced facility mix on the existing site</li> <li>• Seeking continuity of use through building on the car park and then demolishing the existing site</li> </ul>
Option F – New Build (Enhanced) Alternative Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the enhanced facility mix on the existing site</li> <li>• Seeking continuity of use through building an alternative site to the north of Market Harborough and then demolishing the existing site</li> </ul>

- IX. The economic appraisal has considered both the Net Present Value (NPV) and also the qualitative benefits which are summarised in the table below with the overall ranking for each option.

**Table C – Economic Appraisal Summary**

Option	Net Present Value £'million	Ranking by NPV	Weighted Qualitative Score	Quality Ranking	Overall Ranking
Option A – Do Nothing	5.21	2	33	6	6
Option B – Redevelopment	4.03	1	67	3 =	1
Option C – New Build (Core) Existing Site	11.98	3	67	3 =	4
Option D – New Build (Core) Alternative Site	12.51	4	58	5	5
Option E – New Build (Enhanced) Existing Site	13.37	5	92	1	2
Option F – New Build (Enhanced) Alternative Site	13.90	6	83	2	3

- X. As can be seen from the table above the overall ranking for the options suggests the redevelopment option (B) scores best in the overall ranking with the New Build with enhanced facility mix on the existing site scoring second (Option E). We summarise the key rationale for these overall ranking scores below
- Option B (Redevelopment) delivers an NPV which is lower than the do nothing option and also scores well on the quality scores (in third place). The overall NPV is significantly lower than the new build options but there is the opportunity to deliver significantly enhanced facilities.
  - There is no real additional benefit from developing a new build with core facilities as the facilities provided will not be as good as the existing facilities and will not deliver on the needs identified in the Draft Built facilities strategy.

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- In addition the overall NPV for the new build core facilities options (C & D) are similar to those of the New Build enhanced facility mix (E & F), thus if a new build is to be progressed then the enhanced facility mix should be developed as the overall NPV is similar to the core facility mix.
- The enhanced facility mix for the new build is more likely to attract external grant funding
- There is little difference in the NPV between the existing site new build options and the alternative site options. In addition the alternative site options (D & F) provide significantly more risk than the existing site options with the potential costs to acquire the alternative site likely to be understated.
- The do nothing option does not deliver on the strategic outcomes and as such the only benefit is the low NPV, although it also is unlikely to last for 40 years

XI. As a result of the economic appraisal and the key issues identified above the recommended option would be the redevelopment option (B), with the potential to explore enhancing the pool facility to provide an additional 2 lanes. An example of a good redevelopment option which has created a 'new' facility is Enderby Leisure Centre as illustrated below



### **Enderby Leisure Centre**

Following a feasibility study and procurement process (managed by RPT Consulting), SLM were appointed to invest in the Enderby Leisure Centre through a 15 year contract. The overall outcomes were

- A capital expenditure which created a new look for the front of the Centre, with extended gym, Health Spa, Soft Play and new reception area and café.
- Blaby District Council invested the capital and in return achieved a significantly improved management fee
- The investment delivered an improvement on the management fee received by the operator per annum, excluding financing costs

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- XII. Following the Covid 19 crisis further scenario planning has been undertaken to assess the impact on the NPV as a result in both short term and long term reductions in future revenue. This scenario planning suggests that Option B remains the lowest NPV option across all scenarios, but potentially increases the NPV by circa £0.5 - £1.3 million (across all options).
- XIII. If the Council wished to progress a new build option then Option E (New Build with enhanced facility mix and on the existing site) provides the Council with the best overall outcome and should be progressed in preference to the other new build options.

### Key Recommendation

1. The economic case has identified the preferred option as the Redevelopment Option (B) which enables the Council to progress with the development of a major redevelopment (including part new build) to deliver a 'new' facility which reinvigorates and develops HLC
2. If the Council were committed to delivering a new build option then Option E (Enhanced facility on the existing site) would be the preferred option.

### Commercial Case

- XIV. It is expected that HDC will enter into an operating contract with a leisure operator and there are two different approaches to the development of the construction and investment, as follows
- Redevelopment Option (B) – typically in the market a redevelopment option would be undertaken by the leisure operator as they can manage the programme and they are used to delivering these projects. This was the approach undertaken for Enderby Leisure Centre
  - New Build Options – if the Council was to progress with a new build option then it has previously considered a Design, Build, Operate and Maintain (DBOM) approach but has decided to progress with a separate design and build of the new facility and then securing an operator to manage the facility.
- XV. Depending on the option which the Council ultimately progresses with then the construction or redevelopment programme may form part of the operator contract.
- XVI. If the Council progresses with a new build option then they may also want to undertake further market consultation to revisit the DBOM approach and assess the market appetite during the development of the procurement strategy.
- XVII. The Council will also have the opportunity through the procurement to test the suitability of other management options, such as an in house option.

### Financial Case

- XVIII. We summarise in the table below the financial implications for each of the development options based on the capital and annual management fee either received from or paid to the operator.



**Table D – Financial Implications**

<b>Option</b>	<b>Total Capital £'m</b>	<b>External Funding £'m</b>	<b>Net Capital Required £'m</b>	<b>Annual Management Fee £'000's</b>
Option A – Do Nothing	6.75	-	6.75	0
Option B – Redevelopment	9.75	1.0	8.75	(219)
Option C – New Build (Core) Existing Site	17.65	-	17.65	(337)
Option D – New Build (Core) Alternative Site	19.16	1.24	17.92	(316)
Option E – New Build (Enhanced) Existing Site	22.25	1.0	21.25	(485)
Option F – New Build (Enhanced) Alternative Site	23.76	2.24	21.53	(463)

Note:

1. The annual management fee is shown in brackets if it is a payment to the Council and with no brackets if it is a payment from the Council.
2. The annual management fee is an average amount per annum including inflation

XIX. The table above provides the overview of the implications for capital and revenue and highlights the following key points.

- The capital costs required are significantly higher for the new build options than the redevelopment or do nothing options.
- There is the opportunity for some external funding through either capital receipts or grant funding, although grant funding is targeted predominantly at the enhanced facility mix and is relatively limited
- The costs of moving to a new site through purchase of the additional site could potentially be higher than the capital receipts from the sale of the existing site
- The new build options provide an improved management fee but the level of increase is not significant compared to the redevelopment option

XX. It is expected that the net capital required will be funded through Council borrowing using prudential borrowing.

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- XXI. In order to understand the cost to the Council of each of the options the future costs of each option have then been compared to include both the management fee and the borrowing costs. These are summarised in the table below.

**Table E – Affordability**

*Average Annual Impact on Revenue*

<b>Option (£'000's)</b>	<b>Annual Management Fee</b>	<b>Borrowing Costs to the Council</b>	<b>Annual Cost to the Council</b>
Option A – Do Nothing	0	249	249
Option B – Redevelopment	(219)	306	87
Option C – New Build (Core) Existing Site	(337)	695	358
Option D – New Build (Core) Alternative Site	(316)	696	380
Option E – New Build (Enhanced) Existing Site	(485)	831	346
Option F – New Build (Enhanced) Alternative Site	(463)	842	378

Note:

1. The annual management fee is shown in brackets if it is a payment to the Council and with no brackets if it is a payment from the Council.
2. The annual management fee is an average amount per annum including inflation
3. The borrowing costs are average annual costs

- XXII. It can be seen from the table that all of the options incur an annual cost to the Council once the borrowing costs are included. Of the options identified, Option B is expected to cost the Council £87,000 per annum with the lowest New Build Option being option E (Enhanced Facility on Existing Site) at a cost of £346,000 per annum, circa £259,000 per annum greater than Option B.
- XXIII. Option B is also a lower cost to the Council than the Do Nothing option (A), which would cost the Council circa £249,000 per annum.
- XXIV. Currently the contract with SLM provides for a management fee paid to the Council in 2020/21 financial year (for both Lutterworth and Harborough Centres). This has not been reflected in the budget as the Council acts prudently and the budget for 2020/21 shows a nil budget for the Leisure Centres. Thus the costs shown in the table above would be an increase on the current budget.
- XXV. It should however be recognised that the current level of management fee and budget is unlikely to be maintained in any future contract due to a number of reasons.
- There has been analysis of the current performance from SLM of the contract

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- It is unlikely that the income will increase in any new contract without at least some investment in the Centre and as it ages it is likely that the future costs of operating will increase
- If condition survey works (included in Option A and B) are not undertaken then there is risk of failure of the building and also subsequent increases in costs to operate

- XXVI. Thus although the costs of all options represent an increase on the current budget, it should be recognised that the existing costs are unachievable (beyond the life of the existing contract) without investment, if only because condition survey works will need to be undertaken.
- XXVII. Option B (redevelopment) delivers the lowest cost for the Council and of the new build options, the enhanced facility on the existing site (Option E) is the lowest cost but still is £259,000 per annum higher than Option B.
- XXVIII. Consideration has also been given to the impact on future revenues following Covid 19 in two scenarios, short term (initial 5 years reduction in revenue) and long term (reductions in revenue over 40 years).
- XXIX. Both of these scenarios reinforce that Option B delivers the lowest cost for the Council however there is likely to be an increase in costs to the Council in these scenarios of circa £13 – 15,000 per annum (Scenario 1) and circa £80 - £112,000 per annum (Scenario 2).

### Management Case

- XXX. The Council has put in place a programme management structure which includes a programme sponsor and programme manager, who will manage the project in accordance with the principles of the Council's project management and the following summary project plan

**Table F – Project Plan Summary (New Build Options)**

Timescale	Design Development & Construction	Operator Procurement
Jun 2020	<ul style="list-style-type: none"> <li>• Sign off Outline Business Case</li> </ul>	
Jul – Sep 2020	<ul style="list-style-type: none"> <li>• Development of Design Feasibility (RIBA Stage 2)</li> <li>• Sign off Design Concepts</li> <li>• External Funding Applications if required</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare Procurement Strategy</li> <li>• Standard Questionnaire Stage – appoint shortlist</li> </ul>
Oct 2020– Feb 2021	<ul style="list-style-type: none"> <li>• Detailed Design Development (RIBA Stage 4)</li> </ul>	<ul style="list-style-type: none"> <li>• Tender Stage – seek options from market</li> <li>• Market input into design development</li> </ul>
Feb 2021	<ul style="list-style-type: none"> <li>• Development and sign off Full Business Case</li> </ul>	
Feb – May 2021	<ul style="list-style-type: none"> <li>• Planning Application</li> </ul>	<ul style="list-style-type: none"> <li>• Final Tender Stage</li> <li>• Appoint Operator</li> </ul>

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Timescale	Design Development & Construction	Operator Procurement
Jun 2021 – May 2022	<ul style="list-style-type: none"> <li>Construction commences</li> </ul>	<ul style="list-style-type: none"> <li>Mobilisation and finalise contract</li> <li>Contract commences (Apr 2022)</li> </ul>
April 2023	<ul style="list-style-type: none"> <li>New Facility Open</li> </ul>	<ul style="list-style-type: none"> <li>Operator takes on new facility</li> </ul>

XXXI. The programme above sets out the headline plan for a new build option, however if the redevelopment option is progressed then the design development and construction will be undertaken through the operator procurement plan. The operator will be responsible for preparing the design and development with the Council overseeing and signing off the approach. As a result of this the timescale is likely to result in a new facility earlier, as illustrated below.

**Table G – Project Plan Summary (Redevelopment Option)**

Timescale	Operator Procurement
Jun 2020	<ul style="list-style-type: none"> <li>Sign off Outline Business Case</li> </ul>
Jul – Sep 2020	<ul style="list-style-type: none"> <li>Prepare Procurement Strategy</li> <li>Standard Questionnaire Stage – appoint shortlist</li> </ul>
Oct 20– Feb 21	<ul style="list-style-type: none"> <li>Tender Stage – seek options from market</li> <li>Development of outline designs</li> </ul>
Feb 2021	<ul style="list-style-type: none"> <li>Sign off Full Business Case</li> </ul>
Feb – May 2021	<ul style="list-style-type: none"> <li>Final Tender Stage</li> <li>Detailed Design Development</li> <li>Appoint Operator</li> </ul>
Jun 2021 – May 2022	<ul style="list-style-type: none"> <li>Mobilisation and finalise contract</li> <li>Planning Applications</li> <li>Pre Construction Development</li> <li>Contract and construction commences (Apr 2022)</li> </ul>
Dec 2022	<ul style="list-style-type: none"> <li>New Facility Open</li> </ul>

XXXII. There are a number of key gateways for sign off throughout the project plan as the project is developed in detail

- Outline Business Case (OBC) – this document which sets out the options and seeks the approval to commence with the preferred option and enables the Council to develop the detailed approach.
- Approval process as per Council’s procedures and project management group
- Full Business Case (FBC) – the Council at this stage will have detailed design and costs (if a new build) and also have tender submissions from the

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operator to enable the FBC to be developed with robust costs and approach prior to commencing the implementation (construction and operator contract)

- XXXIII. In addition to these key gateway reviews there are also other milestones within each workstream, such as design sign off and appointment of preferred operator.
- XXXIV. It should also be recognised that the timetables set out above may also be impacted by the Covid 19 crisis and the restrictions placed on working requirements.
- XXXV. Once the new facility (whether new build or redevelopment) is operational the Council will enter into a monitoring phase with the new operator and will monitor the performance of the operator to ensure the operator delivers on the key outcomes set out within the specification.

## SECTION 1 – INTRODUCTION AND BACKGROUND

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### Background

- 1.1 Harborough District Council (HDC) has commissioned RPT Consulting (independent market specialists) to prepare an outline business case (OBC) for the potential investment and redevelopment of Harborough Leisure Centre (HLC).
- 1.2 The Council currently has a leisure management contract for its two major facilities which are
  - Harborough Leisure Centre (HLC), which includes the following facilities
    - Swimming Pool
    - Gym and Dance Studios
    - Indoor Bowls
    - Sports Hall
    - Ancillary Facilities (such as café, meeting rooms, pro shop)
  - Lutterworth Sports Centre (LSC), which includes the following facilities
    - Swimming Pool
    - Sports Hall
    - Gym and Dance Studio
    - Ancillary Facilities (such as café, meeting rooms).
- 1.3 The contract is with SLM and is due to end on 31 March 2022.
- 1.4 With the current contract due to end in 2022 and other issues in particular the current condition of HLC, HDC are keen to establish the long term vision for Harborough Leisure Centre.
- 1.5 The overall purpose of this OBC is to set out a long term vision, identify the financial opportunities and recommend a clear action plan through which HDC can establish an approach for the redevelopment of HLC.

### Structure and Content of OBC

- 1.6 This OBC has been prepared using the agreed standards and format for business cases, as set out in the HM Treasury Five Case Model and adopted by HDC.
- 1.7 The approved format is the Five Case Model, which comprises the following key components:
  - the **strategic case** section. This sets out the strategic context and the case for change, together with the supporting investment objectives for the scheme
  - the **economic case** section. This demonstrates that the organisation has selected the choice for investment which best meets the existing and future needs of the service and optimises value for money (VFM)
  - the **commercial case** section. This outlines the content and structure of the proposed deal

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- the **financial case** section. This confirms funding arrangements and affordability and explains any impact on the balance sheet of the organisation
  - the **management case** section. This demonstrates that the scheme is achievable and can be delivered successfully to cost, time and quality.
- 1.8 This work is supported with a number of key appendices and other documents (referenced in the main text), which illustrate the supporting evidence.
- 1.9 Throughout the OBC and in particular for the economic case and the financial case we have considered scenario planning for the impact of Covid 19 on future revenue projections.

### Introduction

2.1 Within this section we seek to identify the overall strategic framework and rationale for the future provision of leisure facilities in Harborough with a focus on the future need for facilities in Market Harborough. This includes the following key areas, which have been reviewed,

- Strategic Context – how the strategic framework supports any new investment in sport.
- Draft Built Sports Facility Strategy and Assessment – which sets out the key facility requirements

2.2 There has been significant strategic analysis and needs assessment undertaken which are reflected in this strategic case. We summarise the key findings from each of these areas over the following paragraphs with further detail in Appendix A.

### Strategic Context

2.3 Sport and Leisure provision in Harborough is influenced by the following documents,

- Sporting Futures – A New Strategy For An Active Nation – HM Government
- Sport England Strategy – Towards an Active Nation (2016 – 2021)
- Start Active – Stay Active 2011
- Changing Behaviours, Changing Outcomes (Dept of Health)
- National Planning Policy Framework (NPPF) - 2012
- Joint Strategic Needs Assessment (JSNA) (2015) – Public Health, Leicestershire County Council
- Harborough Physical Activity Strategy (2019 – 2029)
- Harborough District Council – Corporate Plan (2018 – 2021)

2.4 We present an overview of the various strategies and plans which impact on future provision in Appendix A and summarise over subsequent paragraphs the key themes.

2.5 The new government strategy (Sporting Futures – A New Strategy for an Active Nation) sets out a framework for the sport strategy (see Figure 2.1 overleaf) which identifies outcome for both physical and mental wellbeing, individual development, social & community development and economic development.

2.6 The Harborough Corporate Plan mirrors a number of these outcomes with key priorities being

- A safe, enterprising and vibrant place
- A healthy, inclusive and empowered community, and
- A Council which is creative, proactive and efficient

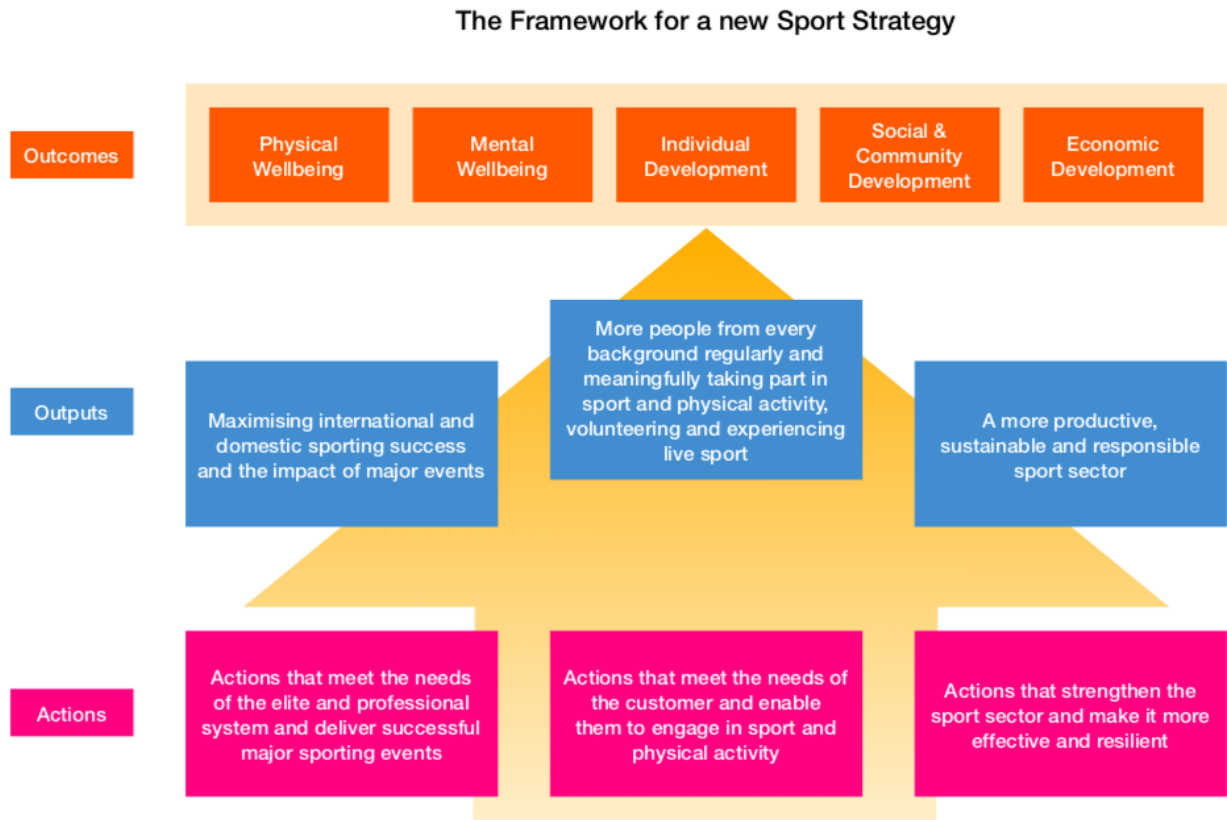
2.7 These represent some constant themes throughout the strategic context about delivering improved health and wellbeing, bringing communities together and



## SECTION 2 – STRATEGIC CASE

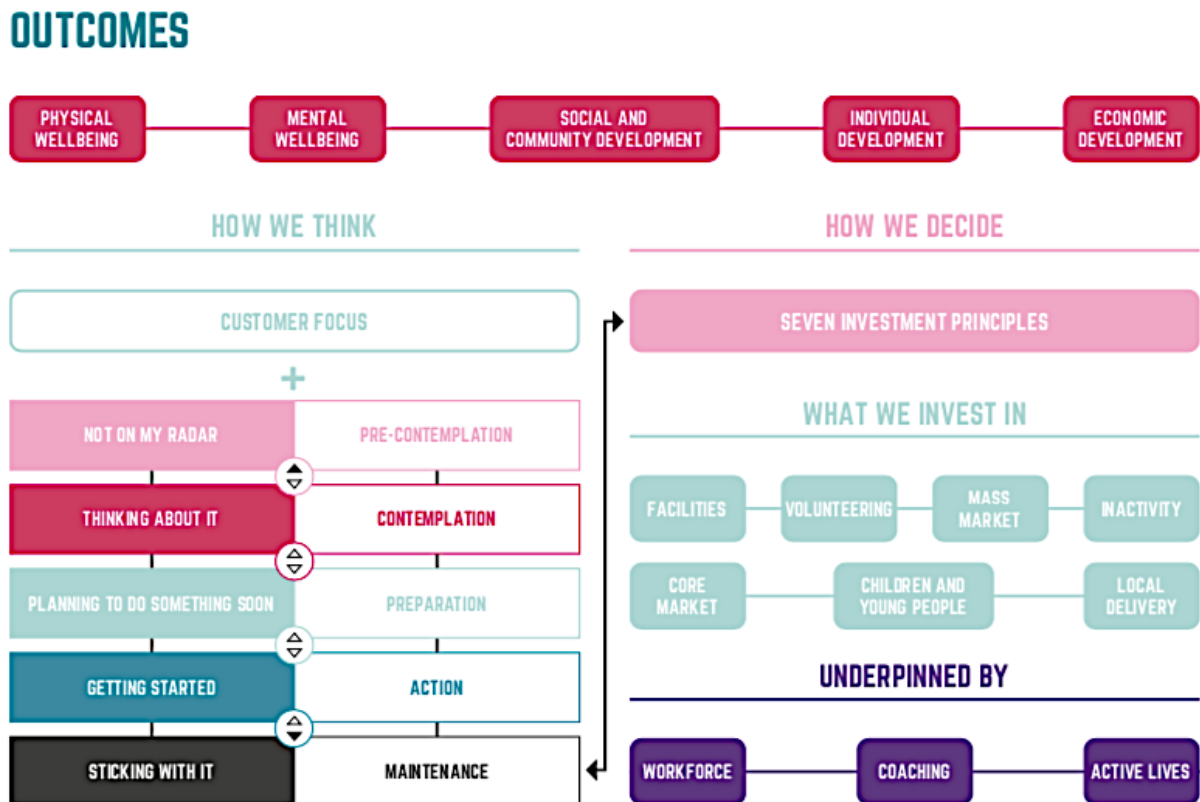
economic development. The Council should consider these outcomes and themes in any future provision.

**Figure 2.1 – Sporting Futures – A framework for an active nation**



- 2.8 This framework also fits with the Joint Strategic Needs Assessment (JSNA) priorities for public health which recognises the need and priority to improve health and wellbeing through the life course, by getting it right from childhood and creating a habit for life (whether physical or mental health and wellbeing).
- 2.9 In the context of current developments there are a number of issues arising from these studies which demonstrate that the current national picture is very much one of promoting health and wellbeing and the links that physical activity and sport can add to the overall debate and deliver outcomes. This is best summarised through the Sport England Strategy which sets out a number of key outcomes illustrated below.

Figure 2.2 – Sport England Outcomes



2.10 As illustrated above the focus of the Sport England strategy is on delivering outcomes across five areas (mirroring those within the Sporting Futures Strategy)

- Physical Wellbeing
- Mental Wellbeing
- Social and Community Development
- Individual Development
- Economic Development

2.11 They also identify different types of customer from those not even thinking about participation through to regular participation and strategies for ensuring they develop their participation. This then links into how they invest in sport.

2.12 There is identified within the various strategies and approaches a real value in investing in sport and leisure whether it is through getting inactive people more active or delivering public health benefits and contributing to the health and wellbeing of the community. This has been reinforced through research from Sheffield University which suggests that for every £1 invested in sport this delivers a social return on investment of £1.91 through reduction in spending on health due to reduced risk, improved education performance, reduction in crime and improved health and wellbeing.

## SECTION 2 – STRATEGIC CASE

- 2.13 As we consider the future options for the development of the Harborough Leisure Centre it will be important to consider them against each of the outcomes set out above and how different approaches reflect these, as well as recognising the value that the delivery of leisure can play across all of the options.
- 2.14 The approach outlined by Sport England also identifies an approach which seeks to deliver on the outcomes above and in the development of the preferred options the approach illustrated below should be followed.



- 2.15 The background of strategic documents presents some clear rationale for the continued delivery of a leisure facility in Market Harborough as it will contribute to the delivery of the outcomes identified above, including health and wellbeing objectives and support the corporate plan.
- 2.16 This rationale remains relevant in the light of the Covid 19 crisis and has if anything reinforced the need for facilities and their support for the mental and physical health and well being of the local community.

### Draft Built Facilities Strategy

- 2.17 The Draft Built facilities strategy prepared in 2019 has undertaken an assessment of the need within Harborough Council for future leisure facilities and reflects a detailed assessment of the need for facilities within Market Harborough. This document is a supporting document to this OBC and we summarise the key findings in relation to Harborough Leisure Centre below.
- 2.18 A key recommendation from the Draft Built facilities strategy is for a replacement leisure centre in Market Harborough which delivers the following facility mix
- 4 badminton court sports hall
  - 25m x 8 lane pool with spectator accommodation
  - 10m x 8m leisure pool
  - 5m x 4m learner/teaching/ training pool
  - Large fitness gym (number of stations tbc)
  - Studios /multi-activity rooms (number and size tbc)
  - 2 indoor netball courts
  - 2 floodlit outdoor netball courts adjacent to indoor
- 2.19 It also makes reference to the fact that if the netball provision identified above is not made through either retaining or replacing the indoor dome facility then consideration should be given to an eight court sports hall instead of a 4 court sports hall.
- 2.20 This recommendation has been used to develop the future options for redevelopment which are outlined in the economic case.
- 2.21 In addition to the Draft Built facilities strategy some analysis has been undertaken of potential locations for any replacement facility to consider both the existing location and also a new location to the north of Market Harborough. This is presented in Appendix B and the key findings of which are as follows
- The overall catchment population is larger for the site to the north of Market Harborough when considering a 15 minute and 20 minute drivetime, however this does reflect that the catchment for the new location does go into Leicester city. This also does not consider the potential facilities which the catchments have access to.
  - There is also a higher proportion of the District population within the catchment areas for the new location.
  - The existing site also is in closer proximity to the Town Centre and is more likely to draw people from Northamptonshire into Market Harborough assisting in developing the economic development of the town.
- 2.22 Thus the identified need for a replacement facility for Market Harborough has identified the need for enhanced facilities than currently provided particularly for the pools and potentially for sports halls, depending on the provision which is retained.

### Strategic Summary

- 2.23 The strategic framework presents the overall rationale for the delivery of sport and leisure facilities in Market Harborough and the contribution they can make to Health and Wellbeing outcomes both nationally, regionally and locally, through getting the inactive to become active. In particular research shows that for every £1 invested there is a social return in investment of £1.91 through reduced health costs, improved education performance, reduction in crime and improved health and wellbeing.
- 2.24 In addition a recommended facility mix has been identified within the Draft Built Facilities Strategy which suggests an enhanced facility mix is required to deliver on the future needs of the population.
- 2.25 The identified needs and the overall outcomes have been considered when evaluating and assessing the options through the remainder of the OBC.

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### Options Considered

- 3.0 This section identifies the options that have been considered in the OBC to enable the Council to consider the approach to any replacement of the Harborough Leisure Centre.
- 3.1 The options have considered a number of parameters which include
- A redevelopment (combination of new build and refurbishment) or a total new build replacement of the Harborough Leisure Centre
  - The future facility mix requirements and the consideration of a core facility mix (which wouldn't deliver on the needs identified) and an enhanced facility mix (which delivers on the needs identified within the Draft Built Facilities Strategy). The difference in these two facility mixes are summarised below and are relevant principally for the new build options.
  - Site location and the potential to redevelop or build on the existing site or to relocate a new build option on a new location at a site to the north of Market Harborough

**Table 3.1 – Core v Enhanced Facility Mix**

Facility	Core	Enhanced
Swimming Pool	<ul style="list-style-type: none"> <li>• 6 lane, 25 metre Main Pool</li> <li>• Learner Pool</li> </ul>	<ul style="list-style-type: none"> <li>• 8 lane, 25 metre Main Pool</li> <li>• Learner Pool</li> </ul>
Sports Hall	<ul style="list-style-type: none"> <li>• 4 court Hall</li> </ul>	<ul style="list-style-type: none"> <li>• 8 court Hall</li> </ul>
Health & Fitness	<ul style="list-style-type: none"> <li>• 100 stations</li> <li>• 2 studios</li> </ul>	<ul style="list-style-type: none"> <li>• 120 stations</li> <li>• 3 studios</li> </ul>
Catering	<ul style="list-style-type: none"> <li>• Café</li> </ul>	<ul style="list-style-type: none"> <li>• Café</li> </ul>
Ancillary Spaces	<ul style="list-style-type: none"> <li>• Reception</li> <li>• Meeting/ Consultation Rooms</li> <li>• Car Parking</li> </ul>	<ul style="list-style-type: none"> <li>• Reception</li> <li>• Health &amp; Community Facilities (meeting space, office space and studios)</li> <li>• Car Parking</li> </ul>
<b>Total (GIFA)</b>	<b>Circa 4,000 sqm</b>	<b>Circa 5,000 sqm</b>

- 3.2 Each of these parameters has been considered and as a result this OBC has considered a number of options as set out below

**Table 3.2 – Redevelopment Options**

Option	Description
Option A – Do Nothing	<ul style="list-style-type: none"> <li>• Condition survey works only to take place to enable the facility life to be maintained</li> <li>• Additional investment in Year 10</li> </ul>
Option B – Redevelopment/ Part New Build	<ul style="list-style-type: none"> <li>• Major redevelopment of the existing site to include additional facilities (such as studio space and health and fitness)</li> <li>• Enhancement of the overall development to create a 'new' facility</li> </ul>
Option C – New Build (Core) Existing Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the core facility mix on the existing site</li> <li>• Seeking continuity of use through building on the car park and then demolishing the existing site</li> </ul>
Option D – New Build (Core) Alternative Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the core facility mix on the existing site</li> <li>• Seeking continuity of use through building an alternative site to the north of Market Harborough and then demolishing the existing site</li> </ul>
Option E – New Build (Enhanced) Existing Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the enhanced facility mix on the existing site</li> <li>• Seeking continuity of use through building on the car park and then demolishing the existing site</li> </ul>
Option F – New Build (Enhanced) Alternative Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the enhanced facility mix on the existing site</li> <li>• Seeking continuity of use through building an alternative site to the north of Market Harborough and then demolishing the existing site</li> </ul>

- 3.3 Appendix C identifies the detailed assumptions that have been used for each of these options and in addition these are supported by appendices X-Y which set out the financial projections and implications.
- 3.4 In addition to this the Willmott Dixon Options Appraisal has identified the potential new build option and location of the development, which provides supporting information for all the new build options. The enhanced facility mix options have then been further developed through looking at the additional costs for the enhanced facilities utilising Sport England facility costs.
- 3.5 The redevelopment option has been based on the previous options appraisal this considered a part new build option, which would include.
- enhanced health and fitness as well as additional studio space through additional build between the sports hall and bowls hall to create a new fitness suite or use of the Bowls Hall. Upstairs is transformed into two dance studios creating additional space and income generating opportunities.
  - In addition the reception space is transformed to provide a welcoming reception and entrance, with the potential to expand this opportunity to

## SECTION 3 – ECONOMIC CASE

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deliver health and wellbeing services in and around reception, to create a community hub.

- A further sub option of the redevelopment could be to develop and extend the pool hall to create an 8 lane pool through the redevelopment, subject to affordability.

3.6 As the project develops these options would be further explored and for use of the bowls hall to create additional space for activities would be developed.

### **Economic Appraisal**

3.7 The economic appraisal provides an overview of the main costs and benefits associated with each of the options and importantly it indicates how they were identified and the main sources. Detailed assumptions used in the benefits and costs analysis are presented in Appendix C and we summarise the key areas below

- Capital costs have been estimated based on condition survey analysis and future design development, using the Wilmott Dixon options analysis for the core facility mix and utilising Sport England Guidance for the enhanced facility mix as well as the Wilmott Dixon options analysis. It should be recognised that the costs are very indicative at this stage, as designs are only at concept stage.
- External funding sources have been estimated based on discussions with the potential funders and seeking commitments, although a number of these sources will be subject to grant funding applications.
- Future income and expenditure projections have been prepared based on the facility mix and operating parameters (such as pricing, opening hours and utilisation rates) set out within Appendices C. The revenue projections have also been compared against other comparable facilities.
- Financing costs include borrowing costs (Minimum Revenue Provision (MRP) and interest), inflation assumptions and discount rates. These costs have utilised PWLB rates for borrowing and the HM Treasury recommendation for the discount rate.
- Whole life costs have been estimated over the life of the asset (40 years) which includes the NPV over the 40 years (from operation) and the financing of the project over 40 years and during the development phase
- The costs of land acquisition for the alternative site have also been included based on estimates from preliminary discussions with the land owners and review of current policies

3.8 The main benefits have been identified with the project team and through consideration of the previous options appraisals undertaken. In considering the benefits and costs for the economic appraisal the following approach has been undertaken to identify the benefits and costs of each option

- Net Present Value (NPV) – identifying the NPV of each of the options and scenarios
- Review of Qualitative Benefits from each of the options



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- Review of key unquantifiable risks which have not been included in the NPV

3.9 We set out the approach to each of these areas below and then provide an evaluation of the options to identify the preferred option.

### *Net Present Value Findings*

3.10 The detailed economic appraisals for each option are attached at Appendix D together with detailed descriptions for costs and benefits, and their sources and assumptions.

3.11 Under all options it is expected that HDC will enter into a management contract with an operator which will have the following key features, with further detail set out in the commercial case

- Leisure operator will pay a fixed management fee to the Council and will take the risk on future income and expenditure projections
- Leisure operator will take the risk and responsibility for life cycle costs under a full repair and renewal lease, however it should be recognised that for the existing building the operator will seek to transfer some of the risk back to the Council.

3.12 As a result of this HDC will transfer the future risk of the operation to a Leisure Operator and the key risks will materialise prior to the entering into the contract through the capital costs and the operator procurement not delivering the future revenue position.

3.13 If the operator defaults on the contract then typically there would be a Parent Company Guarantee (PCG) which will ensure that the management fee continues to be paid, or the difference in management fee if HDC secures another operator. Most operators would offer a PCG as part of the overall management fee.

3.14 If there is no PCG then HDC is able to seek an alternative operator who may deliver the Centre for a better or worse management fee. In this scenario the risk of future operation sits with HDC and there may be additional costs for HDC.

3.15 The following table summarises the key results of the economic appraisals for each option:

**Table 3.3 – Net Present Value**

<b>Option</b>	<b>Net Present Value</b>	<b>Ranking by NPV</b>
Option A – Do Nothing	5.21	2
Option B – Redevelopment	4.03	1
Option C – New Build (Core) Existing Site	11.98	3
Option D – New Build (Core) Alternative Site	12.51	4

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Option E – New Build (Enhanced) Existing Site	13.37	5
Option F – New Build (Enhanced) Alternative Site	13.90	6

- 3.16 Option B ranks the best in terms of the NPV and option A ranks second with the other options providing some significant additional costs (in NPV terms) to the Council.
- 3.17 The enhanced facility mix options (E & F) are not significantly higher in NPV terms than the core facility mix options (C & D).
- 3.18 Consideration has also been given to the impact of the Covid 19 crisis and Appendices G – I provide further detail on the analysis, which considers two scenarios
- Scenario 1 – Short Term reduction in future revenue projections with the revenue projections recovering by year 5
  - Scenario 2 – Long Term reduction in future revenue projections with revenues never achieving the levels projected in the base case above.
- 3.19 Across both of these scenarios the ranking of NPV results remains the same with Option B ranking the best in terms of NPV. The additional NPV is circa £0.5 million in Scenario 1 and circa £1.15 - £1.76 million in Scenario 2 across all the options.

### *Qualitative Benefits Appraisal*

- 3.20 The appraisal of the qualitative benefits associated with each option was undertaken by
- Reviewing the potential benefits arising from each option, in relation to a number of benefits arising from the strategic case. The key benefits include
    - Meeting the facility needs identified within the facility strategy, reflecting the previous customer survey and developing the inactive to become active
    - Enhancing and enabling the delivery of health and wellbeing with opportunities for partnerships with health and other stakeholders
    - Opportunities for people to reach their full potential in their chosen sport and leisure activity
  - Identifying the potential for delivery of the project through an assessment of the likely approach to delivery of the project.
- 3.21 Each of these benefits were analysed and a score out of 3 was given for each of the options and scenarios in accordance with the following scale
- A score of 1 means that the option does not deliver on this criteria

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- A score of 2 means that the options meets and delivers on this criteria
- A score of 3 means that the option exceeds the criteria set out above

3.22 We have also provided a weighting of scores to allow for 75% identified for the strategic outcomes score and 25% for the delivery and risk to give a total score out of 100. For example a score of 1 out of 3 for strategic case benefits will score 25 out of 100.

3.23 We summarise the scoring below and discuss the rationale for the scores. We have compared the options and set out the scoring and rationale below.

**Table 3.5 – Qualitative Benefits Analysis**

Option	Strategic Case Benefits	Future Delivery	Weighted Score
Option A – Do Nothing	<ul style="list-style-type: none"> <li>• No enhancement to facilities</li> <li>• Unlikely to be increased participation</li> </ul>	<ul style="list-style-type: none"> <li>• Initial investment can be delivered with minimal disruption</li> <li>• Significant risk of facility failing over 40 years</li> </ul>	33
	1	1	
Option B – Redevelopment	<ul style="list-style-type: none"> <li>• Significant enhancement to facilities</li> <li>• Additional activities to create new facilities</li> <li>• Opportunity to co-locate with partners</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to deliver the project through redevelopment</li> <li>• Some risk of condition survey work but should enhance the facility</li> </ul>	67
	2	2	
Option C – New Build (Core) Existing Site	<ul style="list-style-type: none"> <li>• Enhancement to the facilities but no additional facilities then current</li> <li>• Does not meet future need identified</li> </ul>	<ul style="list-style-type: none"> <li>• Site is in ownership and can be delivered</li> <li>• Some continuity of service will need to be managed through the new build</li> </ul>	67
	2	2	
Option D – New Build (Core) Alternative Site	<ul style="list-style-type: none"> <li>• Enhancement to the facilities but no additional facilities then current</li> <li>• Does not meet future need identified</li> </ul>	<ul style="list-style-type: none"> <li>• Concerns over the purchase and delivery of the alternative site as a key risk</li> </ul>	58
	2	1	
Option E – New Build (Enhanced) Existing Site	<ul style="list-style-type: none"> <li>• Delivery of a facility that meets the needs identified and also provides health partner opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Site is in ownership and can be delivered</li> <li>• Some continuity of service will need to</li> </ul>	92

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Option	Strategic Case Benefits	Future Delivery	Weighted Score
	<ul style="list-style-type: none"> <li>Opportunity to co-locate with partners</li> </ul>	be managed through the new build	
	3	2	
Option F – New Build (Enhanced) Alternative Site	<ul style="list-style-type: none"> <li>Delivery of a facility that meets the needs identified and also provides health partner opportunities</li> <li>Opportunity to co-locate with partners</li> </ul>	<ul style="list-style-type: none"> <li>Concerns over the purchase and delivery of the alternative site as a key risk</li> </ul>	83
	3	1	

3.24 As can be seen from the analysis above Option E delivers the best overall rationale and in particular delivers a significant improvement under the strategic case.

3.25 There are concerns over the future delivery of the alternative site options which reflect the lack of agreement over any future purchase of the site and the risk of delivering the capital receipt from the existing site.

### *Risk Analysis*

3.26 As part of our analysis we have also identified the potential risks for the options and we summarise the key risks in the table below

**Table 3.5 - Risk Analysis**

Risk	Commentary
Capital Costs are too low	<ul style="list-style-type: none"> <li>Currently costs included at Year 1 for condition survey costs and Year 10 for extending life within Option A.</li> <li>Redevelopment costs are based on sqm costs at this stage</li> <li>New Build costs based on Sport England guidance and indicative costs from Willmott Dixon</li> <li>These costs are estimated and the risk is likely to be high that these are too low</li> </ul>
Building Life is less than 40 years	<ul style="list-style-type: none"> <li>There is a high risk that the existing building will not last for 40 years, without significant investment.</li> <li>The NPV assumes it will for Options A &amp; B but there is significant risk it won't last 40 years (although investment has been included for year 10 to extend the life)</li> <li>The risk is lower for new build options, with a design life beyond 40 years</li> </ul>

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Risk	Commentary
Future Operating Costs are inaccurate	<ul style="list-style-type: none"> <li>• An assessment of the impairment of operating costs due to deterioration in the building (Option A) has been included but the risk of this being too low is high</li> <li>• An operating contract will be established for 15 years and costs will be fixed with the risk taken by the operator. There is a risk that beyond 15 years the operating costs will vary. There is also a risk that the operator could seek to renegotiate the contract or could default on the contract.</li> <li>• Consideration has also been given to the impact of Covid 19 and further scenarios undertaken to assess the likely impact of the crisis and possible reductions in future revenue costs.</li> </ul>
Optimism Bias	<ul style="list-style-type: none"> <li>• The potential that the forecasts and costs are too low due to optimum bias is considered relatively low for Options A &amp; B, due to it being an existing building and there is track record in performance. However there is still some risk that the costs are low.</li> <li>• At this stage of the project there is a risk of optimum bias due to the early stages of the project, however there is contingency in the capital projections and also the operational projections are based on market positions.</li> <li>• The main area of risk is around the capital receipts and land purchase costs for the alternative site</li> </ul>
Reputational Risk	<ul style="list-style-type: none"> <li>• There are reputational risks with each of the options which link to the delivery of the programme and the outcomes that have been identified.</li> <li>• In general these risks are similar across new build options and redevelopment options, however the risk of not doing anything as illustrated below could deliver greater damage to the Council's reputation than any of the other options.</li> </ul>
Risk of Not Doing Anything	<ul style="list-style-type: none"> <li>• If the Council did not progress with any of the options then there are a number of key risks including               <ul style="list-style-type: none"> <li>• Increased cost of operating as the facility starts to lose income through customers going elsewhere and costs rising</li> <li>• Impact on the health of local communities as people are unable to use facilities and there are no opportunities to increase participation and user groups</li> <li>• Reputational risk of the Council as being seen as not caring about the health and wellbeing of communities</li> </ul> </li> </ul>
Alternative Site Risks	<ul style="list-style-type: none"> <li>• There are a number of significant risks associated with the development of an alternative site which include               <ul style="list-style-type: none"> <li>• Land Acquisition Costs which at this stage are only preliminary and could be higher</li> <li>• Timescales could alter due to negotiation over the preferred site</li> <li>• Planning is potentially an issue with the alternative site and is a risk</li> <li>• The capital receipts from the existing site may not be sufficient to deliver a net return over land acquisition costs</li> </ul> </li> </ul>

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Risk	Commentary
Financial Risks	<ul style="list-style-type: none"><li>• There are a number of financial risks which link to the modelling and these include<ul style="list-style-type: none"><li>• Interest rate risk – which could impact on the borrowing costs</li><li>• External funding – will be dependent on applications and may not be delivered (this is particularly relevant for Options E and F)</li><li>• Inflation risk – currently this is factored into the financial model at 2% but could be lower than this.</li></ul></li></ul>
Operating Commitments	<ul style="list-style-type: none"><li>• The Council in all options would be entering into a contract with an operator to deliver the best return for each option.</li><li>• There is a risk that the Council may want to terminate the contract if they no longer wished to or could afford the delivery of leisure.</li><li>• Termination clauses in the contract will allow the Council to do this at a cost (including loss of profit and breakage costs) which would be paid if the Council was operating the facility themselves.</li></ul>

3.27 These key risks will need to be addressed as the project progresses.

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### *Preferred Option*

3.28 The economic appraisal has considered both the NPV and also the qualitative benefits which are summarised in the table below with the overall ranking for each option.

**Table 3.5 – Economic Appraisal Summary**

Option	Net Present Value £'million	Ranking by NPV	Weighted Qualitative Score	Quality Ranking	Overall Ranking
Option A – Do Nothing	5.21	2	33	6	6
Option B – Redevelopment	4.03	1	67	3 =	1
Option C – New Build (Core) Existing Site	11.98	3	67	3 =	4
Option D – New Build (Core) Alternative Site	12.51	4	58	5	5
Option E – New Build (Enhanced) Existing Site	13.37	5	92	1	2
Option F – New Build (Enhanced) Alternative Site	13.90	6	83	2	3

3.29 As can be seen from the table above the overall ranking for the options suggests the redevelopment option (B) scores best in the overall ranking with the New Build with enhanced facility mix on the existing site scoring second (Option E). We summarise the key rationale for these overall ranking scores below

- Option B (Redevelopment) delivers an NPV which is lower than the do nothing option and also scores well on the quality scores (in third place). The overall NPV is significantly lower than the new build options but there is the opportunity to deliver significantly enhanced facilities.
- There is no real additional benefit from developing a new build with core facilities as the facilities provided will not be as good as the existing facilities and will not deliver on the needs identified in the Draft Built facilities strategy.
- In addition the overall NPV for the new build core facilities options (C & D) are similar to those of the New Build enhanced facility mix (E & F), thus if a new build is to be progressed then the enhanced facility mix should be developed as the overall NPV is similar to the core facility mix.
- The enhanced facility mix for the new build is more likely to attract external grant funding
- There is little difference in the NPV between the existing site new build options and the alternative site options. In addition the alternative site options (D & F) provide significantly more risk than the existing site options.

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- The base option does not deliver on the strategic outcomes and as such the only benefit is the low NPV, although it also is unlikely to last for 40 years.
- The analysis of the scenarios and impact of Covid 19 does not change the overall conclusions set out above.

3.30 As a result of the economic appraisal and the key issues identified above the recommended option would be the redevelopment option (B), with the potential to explore enhancing the pool facility to provide an additional 2 lanes. An example of a good redevelopment option which has created a 'new' facility is Enderby Leisure Centre as illustrated below



### **Enderby Leisure Centre**

Following a feasibility study and procurement process (managed by RPT Consulting), SLM were appointed to invest in the Enderby Leisure Centre through a 15 year contract. The overall outcomes were

- Capital expenditure which created a new look for the front of the Centre, with extended gym, Health Spa, Soft Play and new reception area and café.
- Blaby District Council invested the capital and in return achieved a significantly improved management fee
- The investment delivered an improvement on the management fee received by the operator per annum, excluding financing costs

3.31 If the Council wished to progress a new build option then Option E (New Build with enhanced facility mix and on the existing site) provides the Council with the best overall outcome and should be progressed in preference to the other new build options.

3.32 Either of the redevelopment option (B) or the new build option (E) would support the continued enhancement and delivery of the leisure offer generating more people participating in leisure which can bring the following benefits



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- Improved health outcomes and reduction in the overall cost of providing health
- Better mental and physical wellbeing through increased participation in physical activity
- Supporting the most vulnerable in developing their wellbeing and overall life outcomes

3.33 National research has identified that investing in leisure can deliver real benefits as illustrated earlier and for every £1 a social return on investment of £1.91 is delivered through reduced health costs, enhanced education, reductions in crime and health and wellbeing.

### Introduction

- 4.1 This section of the OBC outlines the proposed deal in relation to the preferred option outlined in the economic case, in particular it is expected that HDC will enter into an operating contract with a leisure operator, however the Council will have the opportunity to consider other options through the procurement approach, such as in house options.
- 4.2 It also discusses two different approaches to the development of the construction and investment, as follows
- Redevelopment Option (B) – typically in the market a redevelopment option would be undertaken by the leisure operator as they can manage the programme and they are used to delivering these projects. This was the approach undertaken for Enderby Leisure Centre
  - New Build Options – if the Council was to progress with a new build option then it has previously considered a Design, Build, Operate and Maintain (DBOM) approach but has previously decided to progress with a separate design and build of the new facility and then securing an operator simply to manage the facility.
- 4.3 Depending on the option which the Council ultimately progresses with then the construction or redevelopment programme may form part of the operator contract.
- 4.4 If the Council progresses with a new build option then they may also want to undertake further market consultation to revisit the DBOM approach and assess the market appetite during the development of the procurement strategy.

### Required services

- 4.5 The future operating contract with a Leisure Operator will be procured through an open tendering process and it is anticipated that the key features of the contract will include
- The operator will deliver the management of the HLC and this is expected to be a contract that will also include Lutterworth Sports Centre
  - The HLC will be operated in accordance with a specification which will set out the opening hours, pricing requirements and programming requirements for the new facilities, including community use. This will include delivering against a set of outcomes, including increased participation particularly for target groups (such as those with health issues, young people leaving care, etc) and improving the health and wellbeing of the population.
  - It is anticipated that the branding and marketing of the HLC will reflect that it is a HDC funded facility
  - The operator will be responsible for the full life cycle costs of the facility during the length of the contract.
  - Subject to the preferred option chosen the operator may be responsible for the construction and investment programme (particularly if Option B is progressed)

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- 4.6 These parameters are the basis on which the financial projections have been developed.
- 4.7 It is expected that there will be a market appetite to enter into and bid for a contract as outlined above, based on conversations with the existing operator (SLM) and also the level of interest that was shown previously when the Council procured a partner and market tested the DBOM approach.
- 4.8 As the Council progresses with its preferred option they should hold a market interest day to invite potential bidders in so the Council can sell the District and the opportunity to bidders. This also provides the opportunity for Councillors to input into the debate and for the Council to test whether they should progress with a DBOM or not (if a new build is progressed).
- 4.9 Consideration of the overall approach and timing should also take into account the impact of Covid 19 and potential timing of the project and procurement to ensure the best response to any procurement.

### Potential for risk transfer

- 4.10 The general principle is that risks should be passed to 'the party best able to manage them', subject to value for money. The risk allocation matrix set out below establishes the initial allocation of the risks for both the design and operating stage.

**Table 4.1 - Risk Transfer Matrix**

Risk Category	Potential allocation		
	HDC	Operator	Shared
1. Design risk	X	X (Option B)	
2. Construction and development risk	X	X (Option B)	
3. Transition and implementation risk			X
4. Availability and performance risk		X	
5. Operating risk		X	
6. Variability of revenue risks		X	
7. Termination risks			X
8. Technology and obsolescence risks	X		
9. Control risks	X		
10. Residual value risks	X		
11. Financing risks	X		
12. Legislative risks			X
13. Other project risks			X

### Proposed charging mechanisms

- 4.11 The future leisure operator is expected to make fixed management fee payments in relation to the proposed products and services which will be indexed and based on the operating contract and approach set out above.
- 4.12 In addition it is anticipated that there will be a surplus share agreement where HDC will benefit from a share of any over performance. Typically this would be a 50%

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share of any surplus above that projected, however this would be discussed during the procurement. Income from any surplus share agreement has been excluded from the financial modelling.

- 4.13 The operator will be able to make charges to customers in line with the specification, which will broadly follow the existing charging policy at HLC, but there will also be opportunities to increase some prices in line with the market. The operator will need to get agreement to change prices in the specification in accordance with the current approach.

### **Proposed contract length**

- 4.14 It is anticipated that HDC will enter into a contract with an operator for 10 or 15 years. However it is anticipated that during the procurement of the operator alternative contract lengths will be considered including 20-25 year contracts. Typically these do not generate significant additional revenue particularly as the market is now seeking benchmarking on any long term contracts.

### **Proposed key contractual clauses**

- 4.15 It is proposed that the contract with the operator will be the leisure operating contract which has been developed by Sport England and is widely used in the market.

### **Personnel implications (including TUPE)**

- 4.16 It is anticipated that the TUPE – Transfer of Undertakings (Protection of Employment) Regulations 1981 – will apply to this investment with staff transferring from the existing provider SLM to the new operator.

### **Procurement strategy and implementation timescales**

- 4.17 It is anticipated that the procurement strategy will follow OJEU (or its replacement) procurement and be procured through either the Competitive Dialogue or Competitive Procedure with Negotiation procedure.
- 4.18 During the procurement process it is anticipated that there will be a number of areas where HDC will wish to explore options for the future management contract as set out in the economic case and this would include
- Detailed facility mix and potential areas for development of commercial activities and facilities which will increase the return to the Council
  - The inclusion of Lutterworth Sports Centre to deliver a better return
  - The principle of life cycle costs
  - Expanding the existing facility to include an additional 2 lanes for the pool
- 4.19 These options will be tested to assess the impact on the future management fee the operator will provide. This will enable HDC to make a decision on the most appropriate approach to deliver the financial affordability whilst maintaining HDC's approach to delivering a community focused facility.

## **SECTION 4 – COMMERCIAL CASE**

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4.20 In particular through the procurement approach using dialogue will enable the Council to test the potential for an in house option to be considered. Thus as the procurement is taken forward, the Council will be able to develop its own in house model to compare against the market submissions and if appropriate consider the in house option.

4.21 We explore in the next section the financing and the affordability of the future options.

## SECTION 5 – FINANCIAL CASE

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### Introduction

5.0 This section seeks to set out the forecast financial implications for the various development options (as set out in the economic case) and in particular how the Council will fund and afford any future investment (whether redevelopment or new build).

5.1 The section is structured as follows

- A summary of the potential financial implications, both from a capital and revenue perspective
- Affordability – how the Council might afford any future options.

5.2 We provide detailed assumptions and financial models in Appendices D - F to support the overview presented in this section.

### Financial Implications Summary

5.3 We summarise in the table below the financial implications for each of the development options based on the capital and annual revenue costs or income, with further detail in Appendices D - F.

**Table 5.1 – Financial Implications**

Option	Total Capital £'m	External Funding £'m	Net Capital Required £'m	Annual Management Fee £'000's
Option A – Do Nothing	6.75	-	6.75	0
Option B – Redevelopment	9.75	1.0	8.75	(219)
Option C – New Build (Core) Existing Site	17.65	-	17.65	(337)
Option D – New Build (Core) Alternative Site	19.16	1.24	17.92	(316)
Option E – New Build (Enhanced) Existing Site	22.25	1.0	21.25	(485)
Option F – New Build (Enhanced) Alternative Site	23.76	2.24	21.53	(463)

Note:

1. The annual management fee is shown in brackets if it is a payment to the Council and with no brackets if it is a payment from the Council.
2. The annual management fee is an average amount per annum including inflation

## SECTION 5 – FINANCIAL CASE

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5.4 The table above provides the overview of the implications for capital and revenue and highlights the following key points.

- The capital costs required are significantly higher and have more risk for the new build options than the redevelopment or do nothing options.
- There is the opportunity for some external funding through either capital receipts or grant funding, although grant funding is targeted predominantly at the enhanced facility mix and is relatively limited
- The costs of moving to a new site through purchase of the additional site could potentially be higher than the capital receipts from the sale of the existing site
- The new build options provide an improved revenue position but the level of increase is not significant compared to the redevelopment option.

5.5 It is expected that the net capital required will be funded through Council borrowing using prudential borrowing.

### **Overall Affordability**

5.6 In order to understand the affordability of each of the options for the Council consideration has been given to a comparison of the overall costs to the Council over 40 years in comparison to the existing costs. The key principles of this approach are set out below

- The net capital will be borrowed by the Council and the costs of the borrowing will be included in the affordability calculations
- The future costs of each option have been developed to include
  - The borrowing costs of the net capital including both repayment of principle and interest
  - Revenue projections (management fee) that the Council can expect to receive or pay to a leisure operator
  - Life cycle costs
- Client costs and depreciation costs have been excluded from the future costs as these are non cash items or will be the same across each option.
- Currently SLM are due to pay a management fee for the operation of both Harborough Leisure Centre and Lutterworth Sports Centre in 2020/21, however the Council has prudently assumed a nil budget for this year in line with the amount received in 2019/20. It should however be recognised that this approach is unlikely to be able to be achieved in the long term without investment in the facility, as the level of income would start to decline and also any future operator is unlikely to bid at the same level if there is no investment.

5.7 The future costs of each option are presented in the table and are presented as total figures (full 40 years cost or savings) and annual figures presenting the average annual position.

## SECTION 5 – FINANCIAL CASE

**Table 5.2 – Future Costs**

*Total Cost over 40 years of financial model*

<b>Option (£'millions)</b>	<b>Management Fee</b>	<b>Borrowing Costs to the Council</b>	<b>Annual Cost to the Council</b>
Option A – Do Nothing	0	9.96	9.96
Option B – Redevelopment	(9.64)	13.44	3.81
Option C – New Build (Core) Existing Site	(14.83)	30.60	15.77
Option D – New Build (Core) Alternative Site	(13.89)	30.62	16.73
Option E – New Build (Enhanced) Existing Site	(21.33)	36.57	15.23
Option F – New Build (Enhanced) Alternative Site	(20.39)	37.04	16.65

*Average Annual Impact on Revenue*

<b>Option (£'000's)</b>	<b>Annual Management Fee</b>	<b>Borrowing Costs to the Council</b>	<b>Annual Cost to the Council</b>
Option A – Do Nothing	0	249	249
Option B – Redevelopment	(219)	306	87
Option C – New Build (Core) Existing Site	(337)	695	358
Option D – New Build (Core) Alternative Site	(316)	696	380
Option E – New Build (Enhanced) Existing Site	(485)	831	346
Option F – New Build (Enhanced) Alternative Site	(463)	842	378

Note:

1. The annual management fee is shown in brackets if it is a payment to the Council and with no brackets if it is a payment from the Council.
2. The annual management fee is an average amount per annum including inflation
3. The borrowing costs are average annual costs or total costs over the 40 years

5.8 It can be seen from the tables above that all of the options incur an annual cost to the Council once the borrowing costs are included. Of the options identified, Option B is expected to cost the Council £87,000 per annum with the lowest New Build Option being option E (Enhanced Facility on Existing Site) at a cost of £346,000 per annum, circa £259,000 per annum greater than Option B.

5.9 Option B is also a lower cost to the Council than the Do Nothing option (A), which would cost the Council circa £249,000 per annum.

5.10 Currently the contract with SLM provides for a management fee paid to the Council in 2020/21 financial year (for both Lutterworth and Harborough Centres). This has



## SECTION 5 – FINANCIAL CASE

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not been reflected in the budget as the Council acts prudently and the budget for 2020/21 shows a nil budget for the Leisure Centres. Thus the costs shown in the table above would be an increase on the current budget.

5.11 It should however be recognised that the current level of management fee and budget is unlikely to be maintained in any future contract due to a number of reasons.

- There has been analysis of the current performance from SLM of the contract
- It is unlikely that the income will increase in any new contract without at least some investment in the Centre and as it ages it is likely that the future costs of operating will increase
- If condition survey works (included in Option A and B) are not undertaken then there is risk of failure of the building and also subsequent increases in costs to operate

5.12 Thus although the costs of all options represent an increase on the current budget, it should be recognised that the existing costs are unachievable (beyond the life of the existing contract) without investment, if only because condition survey works will need to be undertaken.

5.13 Option B (redevelopment) delivers the lowest cost for the Council and of the new build options, the enhanced facility on the existing site (Option E) is the lowest cost but still is £259,000 per annum higher than Option B.

5.14 In addition to the costs presented above consideration has also been given to the affordability based on the scenario analysis on the impact of Covid 19 as highlighted earlier in the economic case and presented in Appendices G – I.

5.15 There are a number of key conclusions from the Covid 19 scenario analysis in respect of affordability, including

- Both scenarios still mean that the Redevelopment/Refurbishment option (B) has the lowest cost to the Council. In addition it is likely that the second lowest option (Do Nothing) has the greatest risk in that the future revenues will be reliant on an existing building which will not have been refurbished at all.
- The impact of scenario 1 (short term impact) is relatively low with the annual cost rising by circa £13 – 15,000 per annum in all options.
- The impact of scenario 2 (long term impact) is greater with the annual cost rising by between £80 - £112,000 per annum depending on the option, with the new build options being the greatest increase.

5.16 In considering the overall impact of the Covid 19 situation it should be recognised that there is likely to be some impact, however if this is a short term impact (circa 5 years impact) then the additional cost to the Council across all the options will be relatively minimal. It is difficult at this stage to be definitive on what the impact will be

## **SECTION 5 – FINANCIAL CASE**

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but there appear to be likely to be some positives in the longer term that the market will recover and people will be seeking to build on their physical activity awareness.

5.17 We have in this section presented the financial affordability and it should be recognised that they all will require additional costs in comparison to existing budget, but the existing costs are unlikely to be sustainable in the long term.

## SECTION 6 – MANAGEMENT CASE

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### Introduction

- 6.1 This section sets out the approach to the project management of the project during the design and development phase and subsequently the operating phase.
- 6.2 The project will need to put in place programme and project management responsibilities and follow the Council's major projects and programme requirements.

### Programme Management Arrangements

- 6.3 It is important that HDC has in place a structure and responsibilities for programme management for the redevelopment of HLC, whether it is a new build option or a redevelopment option, which covers two distinct work streams
- Design and development phase (whether new build construction or redevelopment and enhancement)
  - Operator Procurement – to appoint an experienced operator who will manage the HLC (and potentially manage the redevelopment project if Option B is progressed).
- 6.4 We set out below the key features of the approach and responsibilities for programme management.
- 6.5 The Council has appointed a Project Sponsor (Chief Officer Communities and Wellbeing) and will appoint a Programme Manager to manage the programme, in accordance with the Council's project management principles.
- 6.6 In addition to this it is proposed that the two workstreams will also be managed through project managers appointed by the Council. The overall programme management structure will include the following reporting structure

**Table 6.1 – Project Reporting Structure**

Group	Membership	Responsibilities
Project Board	<ul style="list-style-type: none"><li>• HDC Senior Leadership</li><li>• HDC Senior Councillors</li></ul>	<ul style="list-style-type: none"><li>• Responsible for reporting to Cabinet/Council</li><li>• Oversee key assumptions and development of gateway reviews and business cases</li></ul>
Project Team	<ul style="list-style-type: none"><li>• Programme Sponsor</li><li>• Programme Manager</li><li>• Project Managers</li><li>• Leisure, Property, Legal &amp; Finance Officers</li><li>• External Expertise as required</li></ul>	<ul style="list-style-type: none"><li>• Manages project and develops supporting information to inform and advice project board</li><li>• Develops key outputs including design and operating structure</li><li>• Preparation of business cases</li><li>• Managing budget and project plan</li></ul>

## SECTION 6 – MANAGEMENT CASE

6.7 In addition to the reporting above, there will also be the requirement to report to Cabinet and Council at key sign off stages.

### Project Plan

6.8 A detailed project plan will be developed following the agreement to the preferred option and a summary of the key stages and likely timescales are set out below for both workstreams

**Table 6.2 – Outline Project Plan**

Timescale	Design Development & Construction	Operator Procurement
Jun 2020	<ul style="list-style-type: none"> <li>Sign off Outline Business Case</li> </ul>	
Jul – Sep 2020	<ul style="list-style-type: none"> <li>Development of Design Feasibility (RIBA Stage 2)</li> <li>Sign off Design Concepts</li> <li>External Funding Applications if required</li> </ul>	<ul style="list-style-type: none"> <li>Prepare Procurement Strategy</li> <li>Standard Questionnaire Stage – appoint shortlist</li> </ul>
Oct 2020– Feb 2021	<ul style="list-style-type: none"> <li>Detailed Design Development (RIBA Stage 4)</li> </ul>	<ul style="list-style-type: none"> <li>Tender Stage – seek options from market</li> <li>Market input into design development</li> </ul>
Feb 2021	<ul style="list-style-type: none"> <li>Development and sign off Full Business Case</li> </ul>	
Feb – May 2021	<ul style="list-style-type: none"> <li>Planning Application</li> </ul>	<ul style="list-style-type: none"> <li>Final Tender Stage</li> <li>Appoint Operator</li> </ul>
Jun 2021 – May 2022	<ul style="list-style-type: none"> <li>Construction commences</li> </ul>	<ul style="list-style-type: none"> <li>Mobilisation and finalise contract</li> <li>Contract commences (Apr 2022)</li> </ul>
April 2023	<ul style="list-style-type: none"> <li>New Facility Open</li> </ul>	<ul style="list-style-type: none"> <li>Operator takes on new facility</li> </ul>

6.9 The programme above sets out the headline plan for a new build option, however if the redevelopment option is progressed then the design development and construction will be undertaken through the operator procurement plan. The operator will be responsible for preparing the design and development with the Council overseeing and signing off the approach. As a result of this the timescale is likely to result in a new facility earlier, as illustrated below.

**Table G – Project Plan Summary (Redevelopment Option)**

<b>Timescale</b>	<b>Operator Procurement</b>
Jun 2020	<ul style="list-style-type: none"> <li>• Sign off Outline Business Case</li> </ul>
Jul – Sep 2020	<ul style="list-style-type: none"> <li>• Prepare Procurement Strategy</li> <li>• Standard Questionnaire Stage – appoint shortlist</li> </ul>
Oct 20 – Feb 21	<ul style="list-style-type: none"> <li>• Tender Stage – seek options from market</li> <li>• Development of outline designs</li> </ul>
Feb 2021	<ul style="list-style-type: none"> <li>• Sign off Full Business Case</li> </ul>
Feb – May 2021	<ul style="list-style-type: none"> <li>• Final Tender Stage</li> <li>• Detailed Design Development</li> <li>• Appoint Operator</li> </ul>
Jun 2021 – May 2022	<ul style="list-style-type: none"> <li>• Mobilisation and finalise contract</li> <li>• Planning Applications</li> <li>• Pre Construction Development</li> <li>• Contract and construction commences (Apr 2022)</li> </ul>
Dec 2022	<ul style="list-style-type: none"> <li>• New Facility Open</li> </ul>

6.10 There are a number of key gateways for sign off throughout the project plan as the project is developed in detail

- Outline Business Case – this document which sets out the options and seeks the approval to commence with the preferred option and enables the Council to develop the detailed approach.
- Approval process as per Council’s procedures and project management group
- Full Business Case – the Council at this stage will have detailed design and costs (if a new build) and also have tender submissions from the operator to enable the FBC to be developed with robust costs and approach prior to commencing the implementation (construction and operator contract)

6.11 In addition to these key gateway reviews there are also other milestones within each workstream, such as design sign off and appointment of preferred operator.

6.12 It should also be recognised that the timetables set out above may also be impacted by the Covid 19 crisis and the restrictions placed on working requirements.

6.13 Once the new facility (whether new build or redevelopment) is operational the Council will enter into a monitoring phase with the new operator and will monitor the performance of the operator to ensure the operator delivers on the key outcomes set out within the specification.