

**AGENDA ITEM:**

**EXECUTIVE**

**DATE:** 17<sup>TH</sup> NOVEMBER 2008

**SUBJECT:** LUTON AQUATICS CENTRE FEASIBILITY STUDY

**JOINT REPORT BY:** CHIEF EXECUTIVE/ HEAD OF CORPORATE FINANCE

**CONTACT OFFICER:** DAVE KEMPSON 01582 545087  
HUW JENKINS 01582 548068

**IMPLICATIONS:**

LEGAL	✓	STAFFING	
EQUALITIES	✓	COMMUNITY SAFETY	
FINANCIAL	✓	RISKS	✓

**OTHER**

**CONSULTATIONS:**

COUNCILLORS CONSULTED	✓	SCRUTINY COMMITTEE CONSULTED
STAKEHOLDERS CONSULTED	✓	OTHER

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**WARDS AFFECTED: All**

**LEAD EXECUTIVE MEMBER(S): Cllr Simmons, Cllr Harris**

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**RECOMMENDATION(S)**

1. Executive is recommended to approve;
  - (i) The findings of the Feasibility Study Report;
  - (ii) The continuation of work to develop an outline business case for the procurement of the Luton Aquatic Centre on the basis that the capital cost of the facility can be met from prudential borrowing
  - (iii) A supplementary revenue estimate of £184,768 to fund project management and preparation up to and including the reporting of the outline business case for the Luton Aquatics Centre, to be funded from the Swimming Pool Reserve.

- (iv) Give spend approval of £264,247 for initial necessary capital design work for the Luton Aquatics Centre project, to be funded from the Swimming Pool Reserve.
- (v) That the Luton Borough Council Model for Assessing Levels of Affordable Borrowing, and the Council's prudential indicators, be reviewed with the aim of enabling the use of prudential borrowing for the Aquatic Centre, within a prudent framework.
- (vi) That alternative sources of funding continue to be reviewed during the lead up to contractual close to ensure that the optimum financing solution is utilised in the delivery of the Centre.

### **REPORT**

#### **Purpose**

2. The purpose of the feasibility study was to establish whether a 50 m 'Olympic' pool and world class diving training centre to replace the Wardown Swimming and Leisure Centre is a viable prospect for Luton. It examined the five areas that are key to the success of the project:
  - Site – selection of an appropriate site to reduce the total cost and enhance the long-term success of the Aquatics Centre.
  - Scope – Determining the optimum mix facilities to improve financial viability and contribute to meeting the Council's strategic objectives.
  - Operator – Beginning the process to select an operator for the Centre.
  - Procurement – Delivering the project in the most cost effective way.
  - Finance – Ensuring the Centre will be both affordable to build and run.

#### **Recommendations of the Feasibility Study Report**

3. The report recommends that the Luton Aquatics Centre is viable proposition for Luton because:
  - the Luton Regional Sports Centre site is suitable for the development,
  - the preferred scope will deliver a facility that will meet the needs and aspirations of users,
  - Active Luton should be able to operate the Centre, meeting the standards expected and providing value for money,
  - The LEP will provide a cost effective way to deliver the project,
  - an affordable, deliverable business plan has been developed,
  - work to identify capital funding is at an advanced stage.
4. The evidence to support this recommendation is detailed in the report. Which is included in Appendix A

#### **Capital Costs**

5. The feasibility study into the requirements for a landmark aquatic centre has considered both new build and refurbishment of existing facilities. The latest

estimate of the capital costs of such a 50 metre facility at the Luton Regional Sports Centre site are £24.9 million for a new build development and £19.7 million for reconfiguration and refurbishment of the existing facilities.

6. The preferred option of the Project Board is new build, briefly for the following reasons:-
  - Considerable uncertainty in the cost estimates for the refurbishment of the current facilities as limited information is available on the current condition of the building.
  - The capital cost estimate is accurately based on the delivery of a similar new facility in Bristol. Certainty of costs.
  - New construction, modern materials and methods will ensure lower costs in facilities management and lifecycle costs associated with a new construction when compared with refurbished old facilities.
  - Quality of Facilities.
7. The overall financial impact on the Council of all options will however need to be another key issue in making a final decision on the facility and facilities mix. It is important that this impact is based on best estimates of the whole life costs of each option, not just the initial costs.

### Capital Funding

8. Options for using funding that could be raised by London Luton Airport Limited are currently being explored with specialist advisors. However, they have confirmed my view that, considering the current state of the financial markets, the most likely option has to be borrowing by the Council, with the costs of repaying that borrowing funded as a first call on the Council's airport dividend.
9. The current capital programme includes £10million for a Swimming Pool, with assumed funding of £5million from unspecified capital receipts and £5million from an unspecified third party. In the current market it is not safe to assume that either of those amounts can be realised in time to build a pool. Therefore the base case will need to be built upon prudential borrowing.
10. To ensure good governance, the full implications of the final cost and funding options will need to be considered in detail when the outline business case is reported to Executive. At this stage, good governance dictates that members have before them the implications of proceeding on the assumption that prudential borrowing may be used to fund an Aquatic Centre.
11. The Local Government Act 2003, together with the Prudential Code for Capital Finance in Local Authorities, requires authorities who are considering capital investment to have regard to affordability, prudence, sustainability, value for money, stewardship of assets, service objectives, and practicality.
12. Affordability for any scheme cannot be considered in isolation from the rest of the Council's budget, and capital programme. So the impact of the costs of an Aquatic Centre on the revenue budget, capital programme, medium term financial strategy, and the estimated Council budgets for the life of the Centre, all have to be considered.

13. The current Model for Assessing Levels of Affordable Borrowing would not allow borrowing to fund the swimming pool unless the annual running costs, when combined with annual capital finance costs, resulted in significant ongoing savings compared with the current budget.
14. The current model also states that schemes for investment in discretionary services require specific appraisal when significant levels of savings are required to balance the budget on an ongoing basis, as is the case now. This is because if any council is forced to consider reducing service levels, discretionary services are areas where that is more possible than others.
15. The Aquatic Centre clearly meets the prudential code requirement of being a key service objective for the administration. This will need to be reflected in its importance in the Council's Corporate Plan. If the Centre is the highest priority for members amongst items that could be funded from London Luton Airport Limited dividends, it would be possible to earmark the costs of the capital financing of the Centre as a first call on the dividend each year. This would make the capital financing costs affordable, subject to the Council continuing to receive sufficient dividend (which is a reasonable assumption at this point) and subject to the impact on the rest of the budget being affordable. For the scheme overall to be affordable, however, there would need to be reasonable certainty that the running costs, including facilities management, would be no more than, and preferably less than, the current cost.
16. The Airport Dividend is currently used wholly to fund the capital programme. If passenger numbers continue at current levels, then the existing capital programme could continue to be afforded. However, the opportunity to use additional dividend for items such as Highway Maintenance, operational building maintenance, etc, would not be there. If passenger numbers reduce significantly (which is a risk for any airport operation if we enter a significant recession), then the funding available for the capital programme would also need to be reduced.
17. The Model for Assessing Levels of Affordable Borrowing would need to be amended to allow borrowing for schemes determined to be the top capital priority for an administration, that meet key service priorities, where the costs of that borrowing can be met from unbudgeted airport dividend on an ongoing basis, and such borrowing is for a sustainable, practical scheme that provides value for money and improves the stewardship of assets.
18. The Executive will also need to regard the affordability of any such scheme in the context of the Council's existing capital programme, its medium term financial strategy and plan, and in the light of whole life-costing estimates, and longer term financial predictions.

### Revenue Implications

19. The revenue costs of the capital funding, assuming prudential borrowing, will depend upon the interest rates available at the time, and the number of years the building can reasonably be expected to last. They are likely to be between £1.5m and £2.2million per annum.
20. Whilst the final facilities management / lifecycle costs cannot be determined until the design of the facility is finalised, the team are working towards a cost

neutral position. Active Luton's a five year business includes a subsidy requirement that meets this criterion. It is currently preparing a revised business plan for completion by December. The aim is to ensure that the ongoing revenue costs can be met from within current levels of support.

### Continued Project Development

21. To progress the project, further work is required to produce an outline business case. This will form the basis for a decision on whether to proceed to the formal project development process with the Local Education Partnership.
22. The outline business case will cover:
  - *Strategic Context and Business Need* - a strategic analysis of the relationship and synergies between the Centre and the Council's vision, corporate strategies, policies and plans. It will highlight the rationale and need for the Centre, and the contribution the Centre can make to the Council's broader strategies.
  - *Project Objectives* - the business need for the service and the improvements required from the project, developed in terms of the outputs required,
  - *Options Appraisal* - the identification and appraisal of a range of options that will deliver the outputs required, that best meet the service delivery needs and deliver best value.
  - *The Preferred Option* – a statement of the benefits of the preferred option, how it delivers best value and the affordability.
  - *Project Delivery Arrangements* – the intended approach to the procurement of the project and the key issues that are to be addressed in the subsequent development, procurement and delivery of the project. The key elements are:

○ Output Specification	○ Implementation and Project Management Plan
○ Payment Mechanism	
○ Contract Monitoring	○ Procurement Timetable
○ Indexation,	○ Design Quality
Benchmarking and	○ Sustainable Development
Market Testing	○ Statutory Processes
○ Contractual Terms	○ Employee Issues
○ Risk Register	
23. The OBC will take 5 months to prepare.

### LEGAL IMPLICATIONS

24. There are no legal implications at this stage and this has been agreed with Mary Cormack in Legal Services on 12 November 2008.

### **EQUALITIES IMPLICATIONS**

25. An Equalities Impact Assessment on the proposal has not been completed because consultation with affected groups was not possible. A full assessment will be presented as part of the Outline Business Case.

### **FINANCIAL IMPLICATIONS**

26. Specific financing is requested, as set out in recommendations (iii) and (iv), to progress the project efficiently to complete the outline business case. This has been agreed with Dave Kempson on 11<sup>th</sup> November 2008.

### **RISK IMPLICATIONS**

27. The project risks are managed through a risk register that is regularly reviewed by the project board. Risk management actions are coordinated by the Project Manager.
28. If approval to proceed is given there are risks that:
- The OBC will conclude that the project should not continue.
  - Adequate capital funding is not available for the project to proceed.
29. If a decision is taken not to proceed the principal risks are:
- There remains no viable replacement for Wardown Sports and Leisure Centre.
  - The Centre will become uneconomic to run in the short to medium term.

### **COUNCILLORS CONSULTATIONS**

30. The lead Executive Member, Cllr Simmons, has been consulted in the preparation of this report.

### **STAKEHOLDERS CONSULTATIONS**

31. Sport England and the Amateur Swimming Association have been consulted as part of the feasibility study.

### **OPTIONS**

32. Executive can accept the recommendations as set out or decide not to proceed with preparation of the outline business case.

### **APPENDIX**

33. Appendix A – Luton Aquatics Centre Feasibility Study report

### **BACKGROUND PAPERS**

None