



Havant Borough Council Cabinet : 24 October 2012

**Proposal from
Horizon Leisure Centres**

**Gym extension and further site development at
Waterlooville Leisure Centre**

Executive Summary

This report will set out the plans of Horizon Leisure Centres (HLC) to provide an extension of the existing Gym at Waterlooville Leisure Centre (WLC) on adjacent land owned by Havant Borough Council (HBC).

HLC is submitting the proposal to the Cabinet for consideration in order to obtain approval in principle for the overall project (and in particular the transfer of land and extension of lease) before proceeding and committing any further additional resources on the projects.

1. HLC Background

- 1.1 HLC run both the Havant and Waterlooville Leisure Centres on behalf of HBC under 30-year leases, which commenced on 1 October 1997 – the leases are therefore half-way through the term.
- 1.2 Following renegotiations, revised leases were agreed in April 2008 which saw all operational subsidies from HBC cease in exchange for a commitment from HBC to fund the buildings and major plant maintenance.
- 1.3 HLC is a not-for-profit organisation. It is a registered charity and company limited by guarantee. It also operates a separately registered trading subsidiary company. HLC is run by a Management Board which currently comprising 12 Trustees.
- 1.4 Major investment and refurbishments have taken place on both centres over the past 15-years to improve standards and meet customer demands in order to remain competitive and improve market share of leisure users.
- 1.5 HLC built and fully funded an indoor play centre costing £850K in 2004, which has been attracting 100K young adult visits per annum. In 2010, the Crèche at WLC was closed due to declining use and the facility was extended to provide a purpose built Exercise Studio offering some 36

classes a week and attracting 45K attendances per annum. This project cost over £100K and was funded entirely by HLC. Over the past 2-years the wet side changing rooms at both Centres have been totally refurbished, the majority of funding for this has been provided by HLC.

- 1.6 HLC employs approximately 240 staff making it one of the top 20 employers in the Borough. Since 1997 through focused management, HLC has significantly improved the service provided to the community. Attendances at the Centres have increased by 20% and turnover has almost doubled.
- 1.7 Since 2008, HLC has shown considerable business acumen in meeting the challenges faced by the renegotiation of the leases in 2008. As a business, it now feels ready to consider looking at expansion opportunities.
- 1.8 Last month, HLC recently received re-accreditation of the highly prestigious Quest Award for both Centres. Quest is the bespoke quality assurance scheme for the leisure industry. It is an independently assessed review of the way Centres are run over a wide range of key disciplines such as customer experience, health and safety, business planning, maintenance, housekeeping and environment.
- 1.9 In addition to improving the facilities and providing a much-improved service to the community, it is estimated that the HLC operation of the two Centres has so far saved the Council (and tax payers) over £8M – unfortunately this is invisible in Council books. HLC has demonstrated a successful track record of achievement and confirmed that the Leisure Trust model has been a good choice for the community of Havant.

2. The WLC Site and Development Plans

- 2.1 Appendix 1 shows the existing site plan.
- 2.2 The land within the site boundary is zoned for leisure use and the WLC was built in 1991 on the east side of the site in order to provide space for a future dry-side extension to the west of the site. The vacant land has remained unused for 21-years since the Centre was built in 1991.
- 2.3 During negotiations with the two main developers of the Major Development Area (MDA) at Waterlooville a 106 Agreement was agreed which contained a combined contribution of £950K towards the construction of a dry-side extension to the WLC. This contribution was based on the original number of property units of 2,000. However, the number of units has since been increased to 2,550 and as a result the developers' contributions have increased to £1.425M.
- 2.4 The partnership between HBC and HLC has been working on the premise that a dry-side extension to WLC (most likely an indoor sports

hall) will be built when the 106 funding becomes available. Unfortunately due to the economic climate, the construction timetable on the MDA has slowed and it is unknown when the funding will become available. Further, the release of these funds is subject to 1,100 accommodation units being built and occupied.

- 2.5 HLC has identified the need to extend the existing gym at WLC as a matter of urgency (see business case below). To help plan for both an extended gym and future sports hall HLC proposal is to develop the site in two phases with the first phase being the extended gym.
- 2.6 Appendix 2 shows the indicative site plan incorporating the two-phased development approach along with additional parking to accommodate users.
- 2.7 Note that all plans are indicative at this stage. Should approval be granted to the proposals contained in this report then plans will be finalised and be submitted as part of the normal planning and building control application process at the appropriate time.
- 2.8 The key issue here is that HBC approval to the gym extension proposal (and release of the land) is required now to allow for the project to be developed. Should external funding be required then financial institutions will need firm evidence that HLC has access to the land.

3. Gym Extension Business Case

- 3.1 Since 1997, HLC has extended and refurbished the gyms at both Centres on several occasions. The latest refurbishments took place in 2006 when the floors, ceilings, lighting and all the Cardio Vascular equipment was replaced with state of the art machines all incorporating individual TV screens and personal audio connections.
- 3.2 In 1997 gym usage was mainly on a 'pay and play' basis. In 2000 a new Platinum membership package was introduced on a direct debit payment basis giving unlimited access to the gym, swimming and exercise classes. Since this time memberships have been growing strongly.
- 3.3 A latent demand study for use of the gym at WLC was commissioned in December 2011 from the nationally acclaimed Leisure Database Company. The study concluded that the level of latent demand around the centre was potentially good.
- 3.4 Despite the adverse economic climate sales of Platinum Memberships over the past 3-years have exceeded expectations. As a result, the gyms are struggling to meet customer demands, particularly at peak times at WLC where on occasions capacity is reached.

- 3.5 The increasing number of customer complaints on having to queue to use the gym (and also access the exercise classes) is in a way a good problem to have to manage. However it is clear, that an extension of the current gym at WLC is necessary if the business is to resolve the capacity problems (and retain customers) and take the opportunity of continuing to expand its membership base.
- 3.6 Competition for the gym user market is strong in the area. Refer to the competition map in Appendix 3. The largest commercial competitor for HLC is the Fitness First club situated in Waterlooville Town Centre and between the Havant and Waterlooville Centres.
- 3.7 The proposal to extend the gym by increasing the current floor space significantly is an exciting opportunity. It will not only make use of the available and under-utilised leisure land but provide a significantly improved gym and exercise class service to the local community at a time when interest in participating in sport and leisure activities has never been so high following the Olympics, Paralympics and the 'great summer of sport' - the legacy of which must be capitalised on.
- 3.8 The expected increase in use of the gym and the Centre generally will help HLC meet its charitable objectives, improve the health and well-being of its users and increase participation levels in active pursuits. The increased income will enable HLC to further invest in the Centres by improving the range of activities offered, continuing to help subsidise loss-making activities (e.g. swimming) and help keep admission prices low and affordable.

4. Design and Structure Options

- 4.1 The case for a gym extension at WLC is clear. However, the type of extension and design is not so clear. Special care needs to be taken when joining an extension to the existing structure due to the differing ground level – the existing Centre was built above ground level to avoid adversely affecting the high local water table.
- 4.2 To achieve all the benefits outlined above a fairly basic design is all that is needed and this could take the form of a steel structure and brickwork. Alternatively, a higher quality steel, brick and glass structure could be provided. Estimates obtained from Architects suggest the cost difference between the two options could be between £300K to £400K.
- 4.3 The HLC architects (Parnell Design Partnership) have provided some 3D images of what a gym extension would look like. Refer to Appendix 4.
- 4.4 The choice of structure design presents an interesting dilemma. Assuming the Cabinet is willing to support the proposal it will be key to know what type of structure it would prefer to see built. The Cabinet may well take the long-term view as landlords and may prefer a higher

quality construction that may fit better with the existing structure. Also, on expiry of the lease the Council will inherit the extension 'free of charge'. HLC position is likely to be that it too will favour the higher quality structure but the cost of this option could come at a substantial premium.

- 4.5 HLC is looking to fund the cost of the gym extension but given the remaining 15-years tenure on the lease the less expensive extension would be seen as more favourable and with a more achievable pay-back period. There may be issues to resolve with the Charity Commission regarding the more expensive and longer pay-back option given the timescale.
- 4.6 The Cabinet will have a view on the type of structure to be built. If it would prefer to see the more expensive option then it may need to consider whether it is willing to make a financial contribution towards the preferred option. If making a financial contribution for whatever reason was not possible, then alternatively the Cabinet could consider giving an extension of time on the existing leases. HLC proposes that a 15-year extension would allow sufficient time to recoup the capital investment and maximise public benefit.

5. Capital Funding and Business Plan

- 5.1 HLC Board agreed to make a gym extension at WLC the number one priority capital scheme in 2010 to enable business objectives to be met. Since then and following the completion of two financial periods sums have been set aside in the improvements reserve to help fund this project.
- 5.2 The business plan for the past 2-years has been set primarily (but not exclusively) to accrue funds to support the gym extension. As a result, HLC has accumulated sufficient funds to kick-start a gym extension.
- 5.3 If the Cabinet gives consent for an extension, then formal planning and building control applications will be commenced at the earliest opportunity. Depending on the design and type of construction chosen along with the various decision-making processes, HLC may be in a position to commission the building works in the spring or summer of 2013.
- 5.4 If a more expensive extension is preferred and there is no financial contribution from HBC towards it, then the options for raising the capital shortfall will be considered in order to proceed with the intended building timescale.
- 5.5 Based on the initial revenue estimates and indicative capital costs of the alternative extensions, the payback periods would range between 8.3 and 12.4 years. Should the final cost of the extension be in line with the more expensive estimate received then it can be seen that the pay-

back period is close to the remaining 15-year period of the current lease. However, by the time an extension is actually built and open (either in 1 or 2 years time) there may only be 14 or 13-years lease remaining and mean that the forecast would be very close to the pay-back period. A lease extension would certainly help justify investment in this exciting proposal.

- 5.6 HLC would like to continue to invest capital in the two Centres over the long term. Any further major investment by HLC will require significant pay-back periods and the amount to be invested will be increasingly restricted in part by the years remaining on the lease.

6. Principle of Proposal

The overriding principle of this proposal is for HLC to provide and fund a gym extension at WLC as phase 1 of a 2-phased plan that will accommodate a further dry-side extension in the future (most likely once the 106 Agreement funding becomes available).

In exchange for this, the Council will agree to transfer the necessary land into the existing lease at WLC along with any additional rights of way regarding car-parking access.

The above contributions from each party are to be provided on the basis that the arrangement is seen as an extension to the existing lease and partnering agreement conditions.

(It is understood that the new Business Rate Retention Scheme will come into force on 1 April 2013. It is unclear what the implications for HBC will be regarding the treatment of hereditaments occupied by charities. There is concern from charity organisations that if the current draft is not reviewed it may lead to a detrimental effect on the existing financial relationship between the local authority and the charity. If the Cabinet are supportive of the proposals contained in this report and changes are not made to the draft regulations, it may be in the best interest of HBC and HLC to agree changes to the existing leases and partnering arrangement before 31 March 2013. It will be important to keep a watching brief over the developments here.)

For clarity, the arrangement will be an extension of the existing partnering agreement. This will help HLC to further meet its charitable objects, help continue to provide a mix of sporting and leisure activities to the community (some of which require heavy subsidy) and help fund future facility and service improvements to ensure long-term partnership viability.

7. Summary

Building a gym extension at WLC is an exciting proposal for HLC, HBC and the community. The improved sporting facilities will help the community to take up healthy exercise, tackle obesity and improve social well-being and help meet the Government target of 'more people, more active, more often'.

An extended leisure centre facility and service will hopefully be in line with the Council's emerging leisure strategy.

The extension is unlikely to require a financial contribution from HBC although the transfer of land (and associated rights) into the WLC lease is essential.

An extension of the period for both of the Centre leases of 15-years will greatly help justify the significant investment of HLC charitable funds and provide a more prudent timeline to recover this and future investments.

In exchange for the transfer of land and associated access rights a new building will be provided by HLC that will greatly serve the community of the Borough. At the end of the lease period HBC will inherit an extended and modernised leisure centre without any capital contribution and HBC's fixed asset portfolio will be significantly enhanced.

There is a sound business case to support the extension particularly at this time following the great British summer of sport and the need to capitalise on the legacy opportunities this presents. The public's sporting interest in participating in healthy exercise will never be as high.

The 2-phased approach to the development of the leisure site will facilitate further planned growth for the leisure provision and help meet the needs of the existing and future community.

Approval for this proposal will support the continuation of the existing, and highly successful partnering arrangements.

Together the partnership can help achieve Horizon Leisure Centre's vision of 'Making Life Better'!

Horizon Leisure Centres