

EAST RENFREWSHIRE COUNCIL14th December 2022Report by Chief ExecutiveEASTWOOD LEISURE CENTRE / THEATRE OPTIONS**PURPOSE OF REPORT**

1. The purpose of this report is to advise the Council of the impact of construction cost inflation, energy price inflation and increased interest rates on a range of options with regard to the delivery of a new Eastwood Leisure Centre and Theatre.

RECOMMENDATION

2. It is recommended that the Council:-
- Notes that a figure of £55m has previously been approved by Council to be included in the capital plan for the purpose of building a replacement Eastwood Leisure Centre;
 - Notes that since the capital plan was approved, there has been considerable instability in construction prices, interest rates, and energy prices and that a centre of the scale originally envisaged would require additional investment;
 - Consider a range of options for the provision of leisure facilities in Eastwood and identify a preferred option to allow the Head of Accountancy to make changes to the capital plan (if necessary) in preparation for the Council meeting in March 23; and
 - Consider the timing of the preferred option.

BACKGROUND

3. The Council in February 2021 considered a report ([Here](#)) providing an update on the Eastwood Leisure Centre and Theatre options and costs.

4. The report explained that the opportunity is unique given the blend of civic, education, leisure, culture, heritage, landscape and community within Eastwood Park. The Leisure Centre/Theatre has the potential to deliver wide benefits, reinforcing the success of the surrounding areas as attractive places to live with excellent facilities including schools, local shops, restaurants, places of worship, sports clubs and good public transport. 5. The report highlighted the opportunity for a high quality, visually attractive and state-of-the-art facility.

5. The focus was on customer appeal, future flexibility and income generating opportunities. Key examples included pool facilities which offer scope for lessons alongside public swimming and training, extended hours of access to the gym and fitness suites, a gymnastics facility, the potential to incorporate a library, agile workspace, office accommodation, a studio theatre and rehearsal space to complement the main theatre auditorium, address waiting lists and demand for service, and offer an outdoor

cinema/theatre area as well as being able to host a wide range of events

6. The report in February 2021 advised that the overall development cost was estimated to be £55 million. Council agreed that the project could proceed and an investment of £55 million was built into the Council's capital plan.

7. A further report was brought to Council on 26th October 2022 ([Here](#)). This noted that the Royal Institute of British Architects (RIBA) stage 3 market review of the cost plan showed that the updated budget estimate had risen to £74 million. The project has been affected mainly by the high level of inflation being experienced across the construction sector. A value engineering exercise was then carried out which identified that the estimate of £74 million could be reduced to £67 million, without reducing quality and/or functionality and without adversely affecting whole life costs.

8. Council noted the effect of construction inflation on the projected cost of a replacement Eastwood Leisure Centre, the recent volatility in interest rates and energy prices, and that a further report would be brought to Council in the near future, once an analysis of the impact of interest rates and energy prices on the cost of options for the Eastwood Leisure Centre and the overall capital plan had been completed. This report is the result of that further analysis.

REPORT

Interest Rates

9. The October report highlighted that interest rates had risen sharply making borrowing more costly. Prior to recent increases the Council's loans fund interest rate for 2023/24 was budgeted at 3.04%. As at 7 December, the estimated 2023/24 rate is now 3.93%.

10. The Council does not borrow against specific capital projects but borrows as required to fund the capital programme, taking into account other sources of income such as Capital grants from the Scottish Government. Therefore, this increase in interest rates influences the total capital financing costs of the Council. It should be noted however that in recent years the Council's capital financing costs have been low at circa £9m per annum as compared to £13.6m per annum in 2012/2013.

11. The Council has taken advice for our external Treasury advisors who are expecting interest rates to reduce in a year or two. They have therefore recommended that we defer new borrowing for a year or two until rates reduce again. This could be achieved by delaying capital projects or alternatively, the Head of Accountancy has identified that the Council could utilise "internal borrowing" from its cash balances as a temporary measure to fund key capital expenditure and avoid incurring higher interest rates. When interest rates reduce, the internal borrowing would be replaced by long term external borrowing. A revised cost of borrowing is identified for each option below, assuming that this approach is taken.

12. By taking this approach outlined, the impact of high interest rates on the Council's capital financing costs should be reduced and therefore should not be considered as a significant factor in Council's decision on which option for the leisure centre to progress.

Energy Costs

13. With regard to energy, the new build leisure centre and theatre have a *Net Zero Ready* all-electric design, whose carbon emissions will lower as the electricity grid decarbonises. Operational Energy Use analysis predicts a 63% reduction in operational energy

consumption per m² compared to the existing building. Even taking into account that electricity per unit presently has a significantly higher cost than gas, the cost of energy per m² for the new build options will be slightly lower than for the existing building.

14. The electric air source heat pumps (ASHPs) and energy efficient pool filtration equipment add a premium of £1.2m to the project cost but this is considered good value for money because of the reduced running costs and the greater efficiency (>300%), carbon credentials and the resilience of ASHPs compared to conventional gas/oil fired boilers.

15. Energy prices have also increased recently and advice has been taken on the likely long term costs of electricity and gas. We understand that in the medium term, higher prices may remain and therefore we have made a prudent assumption that the unit price for electricity will stay at around 34p per kWh. Estimated energy costs are provided for each option.

16. An initial analysis has been carried out to assess if an upgrade to full Passivhaus accreditation would provide an additional saving in the cost of energy and provide good value for money. Passivhaus is the gold standard in energy efficiency and refers to buildings created to rigorous energy efficient design standards so that they maintain an almost constant temperature. The initial analysis suggests that the design of the leisure centre is already close to Passivhaus standards and that additional investment would not provide value for money.

17. While high energy costs will affect the running costs of the new leisure centre, they are already impacting the running costs of the existing centre. The largest option for the leisure centre will incur higher energy costs but for some of the other options the difference will be marginal in the medium term.

Revenue costs of the Leisure Centre

18. East Renfrewshire Culture and Leisure Trust (ERCLT) operate Eastwood Leisure Centre under a management agreement. The Council does not specifically identify the funding for Eastwood Leisure Centre but the Trust have identified that the subsidy per annum to the centre is in the region of £500k. The Trust have analysed the impact of the different options on the revenue projections and required subsidy. The previously preferred option of centre of over 10,000 sqm would be effective in maximising income generation opportunities and the Trust expected to be able to operate the centre with an unchanged level of subsidy.

19. For options 2, 3 and 4, the balance between staff costs and income changes slightly and the deficit is likely to increase slightly.

Construction Costs

20. Construction costs have suffered from very significant inflation caused by a number of factors. It is difficult to predict future construction inflation but it appears that inflation will continue for a period but with the rate of inflation reducing. In the future prices may stabilise but it seems unlikely that prices will reduce especially due to the impact of the war in Ukraine on steel prices.

21. All options outlined below include a significant level of contingency to reflect potential inflation in construction costs and project risk. Options 1, 2 and 3 have a contingency of circa 20%, Option 4 27% and Option 5 41%. The increased contingency for Options 4 and 5 is primarily due to the risks associated with refurbishment of an existing building.

22. A delay in the start date of construction of a new facility is likely to increase the cost of the project further. Based on Option 2 -

- A 1 year delay would add an additional 9.5% to project costs (circa £5m)
- A 2 year delay would add an additional 13.8% to project costs (circa £7m)
- A 3 year delay would add an additional 15.3% to project costs (circa £8m)

Options

23. The following options are detailed below:-

- **Option One - Maintain the original Full Project Brief** - this includes a theatre, a 50M pool, a 20M pool and a family fun pool, a six court games hall with an overall capacity of 800,000 customers per year. This would be an ambitious project which would meet the needs of a growing population, especially for swimming lessons, as well as attracting visitors from outside of the area with a resulting economic benefit to the area. This has a capital cost of circa £67M.

The next 3 options have been prepared to identify what could be done within the approved cost envelope of £55m whilst retaining as much as possible of the original vision and design of Option 1.

- **Option Two - Build a New Leisure Centre with Theatre - with less pool and games hall provision:** The design would be similar to Option 1 but with a 25m pool, 10m learner pool, 4 court games hall and reduced specification. This would have a capacity of 650,000 customers per year and a capital cost of circa £52M.
- **Option Three - New Leisure Centre with Theatre** - the design would be similar to Option 1 but with a 25m pool, 10m learner pool, no games hall or library and reduced building specification. This would have a capacity of 450,000 customers per year. This has a capital cost of circa £50M.
- **Option Four - New Leisure Centre only with refurbished theatre** - the design would be similar to Option 1 but with a 25m pool, 10m learner pool, no games hall or library and reduced building specification. This would have a capacity of 450,000 customers per year. The refurbishment of the theatre would involve its closure for a period of time, the works would carry considerable financial risk with the refurbished building having a 30 year lifespan. This has a capital cost of circa £51M with a total 40-year cost of £98M.

The next 2 options retain the existing facility. Refurbishment will extend the life of existing assets by 30 years whereas a new facility will have a life of more than 40 years.

- **Option Five – Refurbish the Existing Facilities** - this would have a capacity of 285,000 customers per year. This has a capital cost of circa £44M. This has previously been discounted as providing poor value for money due to the more limited lifespan of a refurbished building. The inability to meet customer demand due to size and the poor green credentials should also be considered. The leisure centre would also have to be closed for a considerable period of time with very limited alternative provision for residents.

- **Option Six –Retain existing facility and carry out essential maintenance**
- this building and the pool is already near end of life and is likely to be required to be permanently closed at some time in the future. This would have a capacity of 285,000 customers per year whilst the building was operational. If this option was selected the capital costs already incurred in the design of the new building could no longer be classed as capital expenditure and would instead have to be borne by the revenue budget.

24. The following data has been gathered for each option:-

- a) Capital costs
- b) Annual loan charges
- c) Annual cost of energy at current prices
- d) Expected visitor numbers
- e) Trust's annual running and income costs
- f) The date that the facility could be operational
- g) Any risks or issues

25. The table contained within the appendix provides the necessary data for each of the options.

CONSIDERATIONS

26. The existing centre does not have the capacity to meet current demand from the existing population, let alone facilitate further growth. At-285k visits per year, the current centre has oversubscribed spaces such as the theatre and the pool and this generates considerable dissatisfaction from residents.

27. Leisure centres play an important part in the health and wellbeing of local residents. The importance of all forms of exercise in terms of wellbeing and mental health has become even more prominent during the pandemic. Public sector leisure centres play a vital role in ensuring that all residents can access physical activities. ERCLT works very closely with the HSCP in a number of areas but rehabilitation after illness is a particular area worthy of highlighting.

28. The do-nothing option also comes with substantial risk in terms of the potential requirement to replace important or costly plant at short notice in the event of failure with consequential closures likely. The current plant is beyond its current life capacity and as such there is a risk of plant failure and therefore a possible temporary closure whilst broken plant was fixed. Backlog maintenance has been estimated at circa £14m. It would also mean that the costs incurred so far in relation to the design would need to become a revenue cost.

29. To refurbish the existing centre would involve closure for up to 24 months. The closure could mean the end of a number of local clubs, groups and companies which currently use the centre. Residents are likely to join other leisure centres whilst the centre is closed and it will take some time before membership numbers and revenue return to pre closure levels leading to an increased subsidy requirement. Residents in our more vulnerable groups may not have the opportunity to join other leisure centres. This option

was previously considered and rejected by Council in 2018.

30. Options one, two and three (and to an extent option four) would result in a building with low carbon emissions assisting the council in working towards its Net Zero commitments. The options would be 'net zero' in operations once the electricity grid is fully decarbonised.

31. The working assumption is that were options 2-4 chosen, a new planning application would not be required. However, detailed designs would need to be submitted in order to confirm this assumption. In order to comply with the approved planning consent works would need to start by 19 January 2025.

32. All new build options could be built by mid-2026/27 with the refurbished theatre or refurbished leisure centre and theatre complete slightly later in 2027.

FINANCE AND EFFICIENCY

33. There is currently provision of £55M within the Council's General Fund Capital Programme.

34. The financial implications of each option are noted in the appendix. The assumptions around interest rates, construction inflation and energy rates are the same for each option and have been noted in the appendix.

35. In addition to determining a preferred option, Council could consider delaying the start date for construction.

36. Even if, as noted at paragraph 11, internal borrowing is utilised temporarily to avoid increased interest rates, other revenue pressures facing the Council are severe for the next few years. A deferral could lessen the immediate revenue pressures. This however would need to be balanced against the potential increase in overall construction costs as a result of construction inflation in the next two years.

37. The impact of deferring the options for a period of up to two years would include:-

- leading to more certainty that lower interest rates are achievable.
- Increasing the overall cost of the project as construction inflation is expected to continue for some time.
- Contributing to reducing the costs of borrowing for the overall capital programme (loan charges) which will reduce pressure on the revenue budget.
- Increasing the risk that the existing leisure centre pool will fail, leaving residents with significantly reduced access to swimming.

CONSULTATION AND PARTNERSHIP WORKING

38. There has been considerable partnership working, mainly with the East Renfrewshire Culture and Leisure Trust in developing these proposals, alongside internal Council teams. HubWest have provided the detailed technical and financial appraisal work of the options under consideration.

IMPLICATIONS OF THE PROPOSALS

39. Each option has a variety of financial and non-financial implications. Figures are provided for the build and running costs for each option over a forty-year period. The implications of each option are noted.

RECOMMENDATION

40. It is recommended that the Council:-

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- Consider the timing of the preferred option.

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Eastwood Options Analysis

| Option Description Key Metrics <u>Summary Programme</u> | GIFA (m ²) | Capital Cost (£k) | Annual Energy Cost (£k) | Subsidy (£k) | Debt Repayment (Average p.a.) | 40 Year Total Cost Energy + Subsidy + Debt Repayment (£k) | Commentary |
|--|--|-------------------|-------------------------|---------------|-------------------------------|---|--|
| 1: Original Project Brief (inc. 50m pool, 6 court games hall) - 800,000 customers / visits p.a. (inc. theatre) - 2,750 members - 1800 Learn to Swim members - Theatre 250 Professional performances / 56,000 attendances <u>Enabling Q1 23; Phase 1 Main Works Q1 24 - Q2 26;</u> <u>Phase 2 Demo & External Complete Q1 27</u> | 10,145 | £67,768 | £1,205 | £500 | £3,076 | £191,247 | Trading £2.8M income / £3.23M Costs Membership based on industry metrics for membership (20 members/station - gym only; 25 members/station - gym + studios; 35 members/station - gym + studios + other offers) Swimming / wet side £750k income Arts & Theatre £661k income Gyms & Fitness £1,111 income Increased staffing includes Library staff & Resources Uplift in water consumption, cleaning and consumables |
| 2: Reduced Project Brief (inc. 25m pool, 4 court games hall) - 650,000 customers / visits p.a. (inc. theatre) - 1,950 members - 1264 Learn to Swim members - Theatre 250 Professional performances / 56,000 attendances <u>Enabling Q1 23; Phase 1 Main Works Q2 24 - Q2 26;</u> <u>Phase 2 Demo & External Works Complete Q1 27</u> | 7,560 | £52,718 | £845 | £750 | £2,385 | £159,192 | Trading £2.14M income / £2.89 Costs No arts classes (-£80k) Reduced wet side (Learn to swim/casual/other) Reduced café/ancillary spend Reduced coaching (gymnastics and sports hall; sports hall as per BHF) |
| 3: Reduced Project Brief (inc. 25m pool. Games hall and library removed) - 450,000 customers / visits p.a. - 2,160 members - 1200 Learn to Swim Members - Theatre 250 Professional performances / 56,000 attendances <u>Enabling Q1 23; Phase 1 Main Works Q2 24-Q1 26;</u> <u>Phase 2 Demo & External Works Complete Q1 27</u> | 7,150 | £50,716 | £800 | £700 | £2,293 | £151,720 | Trading: £2.09M income / £2.78 M costs No Sports Hall - contrary to ERC Sports Facilities Strategy (approved 2018) - no dry side sports clubs provision No library - removes significant element of family visit offer. - Library omission (25% of projected attendances) reduces footfall, dwell-time, ancillary spend and membership sales opportunities, slightly offset by allowing increase in fitness space sizes. Income impact slightly offset by reinstatement of arts classroom. - No school / study space or library provision |
| 4: New Leisure Centre (as option 3) + refurbish existing theatre - 400,000 customers / visits p.a. - 1,935 members - 1200 Learn to Swim members - 200 Professional performances / 40,000 attendances <u>Enabling Q1 23; Phase 1 Leisure Centre Q2 24 - Q3 26;</u> <u>Phase 2 Refurb Theatre Q3 25 - Q1 27</u> | 4,793 new 2,296 refurb 7,089 total | £51,673 | £1,120 | £800-1000 | £2,336 | £170,740 | Trading: £1.92M Income / Costs £2.85M As above plus:- Reduced footfall to leisure site (dual-building site) allow 10% reduction membership sales . Theatre house remains 330 but studio added on site of Carmichael Hall. Likely most current amateur drama groups and dance schools fold with no revenue stream for 2 yrs Increased supervision / running costs for two buildings impacts negatively on subsidy Subsidy - increased by £500k to £1000 during refurb, £800k thereafter |
| 5) Refurbish Existing Facilities (Extend life by 30 yrs) After 2-3 year closure and 5 year recovery capacity and offer remains unchanged - 285,000 customers / visits p.a. (inc. Theatre) - 900 members (offer is outdated with no classes, and small gym) - 1,000 Learn to Swim members - 160 Professional Theatre shows / 28,000 attendances (52% house occ.) <u>Main Works Q2 24 - Q1 27</u> | 4,841 | £44,376 | £768 | £1,000 - £800 | £2,379 | £163,130 | 5 yr recovery period for gyms, fitness and theatre hires Redundancy programme for current staff Impact on overall viability of Trust Refurbished centre has no additional capacity, and does not address current deficiencies No improvements to theatre back-stage, storage, access, fly-tower etc. Fitness offer remains badly outdated and unable to compete with increasing competition. No pool capacity increase means 2 year waiting list for East Renfrewshire children to learn to swim remains Main auditorium / theatre limitations not addressed. Subsidy - £2,500k during refurb, £1,000 reducing to £800k thereafter |
| 6) Do Nothing | 4,841 | - | £747 | £500 | - | £49,880 + unknown additional capital investment | Risk of breakdowns resulting in loss of service Requirement for ongoing investment in a building that is beyond its life expectancy Backlog Maintenance priced in 2017 £11M - current estimated cost £14+M |

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