

Maidstone Leisure Centre

Timetable	
Meeting	Date
Economic Regeneration and Leisure PAC	7 February 2023
Executive	8 February 2023

Will this be a Key Decision?	Yes
Urgency	Not Applicable
Final Decision-Maker	Executive
Lead Head of Service	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance, Resources and Business Improvement Katie Exon, Head of Property and Leisure Mike Evans, Leisure Manager
Classification	Public
Wards affected	All

Executive summary

Decisions are required about the future of Maidstone Leisure Centre, given the impending expiry of the current operator's contract, the condition of the building and the Council's commitment to promoting health and wellbeing. This report sets out the decisions to be addressed and presents formal recommendations to be made to the Executive.

Purpose of Report

Decision

This report asks the Committee to consider the following recommendation to the Executive:

1. That the option entitled minor practical improvements is pursued.
2. That detailed plans for the minor practical improvements are developed and are included in the tender documentation.
3. That the capital sum to deliver these works is identified in the Medium-Term Financial Strategy and in the 2023/24 capital programme.

4. That delegated authority is given to the Director of Finance, Resources and Business Improvement, in consultation with the Lead Member for Leisure and Arts, to lead a procurement process and invite tenders for the delivery of the minor practical improvements.
5. That after the completion of the tender process, delegated authority is given to the Head of Mid Kent Legal Services to enter into such contracts as required to complete the contract award and commence the minor practical improvements.
6. That the council pursues a contract extension with Maidstone Leisure Trust and Serco Leisure Ltd for the continued operation of the centre until 2031.
7. That feasibility work on the long-term future of the centre and all alternative options and provision continues.

Maidstone Leisure Centre

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p>The four Strategic Plan objectives are:</p> <ul style="list-style-type: none"> • Embracing Growth and Enabling Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place <p>Accepting the recommendations will materially improve the Council's ability to achieve A Thriving Place and Homes and Communities. We set out the reasons other choices will be less effective in sections 2 and 4.</p>	Leisure Manager
Cross Cutting Objectives	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected <p>The report recommendations support the achievement of the health inequalities and environmental sustainability cross cutting objectives.</p>	Leisure Manager
Risk Management	Refer to section 5 of the report.	Leisure Manager
Financial	Accepting the recommendations will demand new spending. We plan to fund that spending as set out in the approved Medium-Term Financial Strategy and capital programme.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Head of Property & Leisure

Legal	Acting on the recommendations is within the Council's powers as set out at within various Local Government Acts.	Contracts and Commissioning Team Leader, MKLS
Privacy and Data Protection	The recommendations do not impact personal information (as defined in UK GDPR and Data Protection Act 2018) the Council processes.	Senior Information Governance Officer
Equalities	The recommendations will create plans and proposals which will lead to changes in service, therefore equalities impact assessments will be completed alongside the plans as they are developed.	Equalities & Communities Officer
Public Health	We recognise that the recommendations will have a positive impact on population health or that of individuals.	Housing and Inclusion Team Leader
Crime and Disorder	The recommendations will have no negative impact on Crime and Disorder.	Leisure Manager
Procurement	On accepting the recommendations, the Council will then follow procurement procedures. We will complete those exercises in line with financial procedure rules.	Head of Service & Section 151 Officer
Biodiversity and Climate Change	The implications of this report have been considered and there are multiple opportunities, through the recommendations, to greatly reduce utilities and carbon emissions, seek a Passivhaus standard, and make positive impacts on biodiversity and climate change in the borough.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

2.1 It is timely to consider future options for the Leisure Centre for the following reasons.

- The current contract for operation of the Leisure Centre with Maidstone Leisure Trust and Serco Leisure Limited expires in 2024.
- The Leisure Centre building is over 50 years old and is becoming increasingly more expensive to maintain and is a negative contributor to the council achieving its net zero carbon ambitions.

- It is appropriate to consider whether the Council's service offer meets its overriding strategic priority of promoting accessible health and wellbeing, within the context of the wider leisure market and the financial pressures faced by the Council.
- 2.2 A sizable body of research and evidence has been accumulated by the Council over the last few years which can help inform this consideration. The imperatives described above mean that this information should now be evaluated and appropriate decisions made.
- 2.3 A report to ERL Committee in December 2022 presented the findings of the research and the scale of the challenge that the council faces. This report is cited as a background paper. The options discussed by ERL Committee in December 2022 included:
- Building a brand-new leisure centre
 - Completing a major refurbishment of Maidstone Leisure Centre
 - Making no changes and continuing with the existing Maidstone Leisure Centre
 - Making minor improvements to Maidstone Leisure Centre
- 2.4 In the current financial climate, and with substantial supply chain issues affecting the construction sector, embarking on a new build leisure centre or a major refurbishment project come with significant project risks. The capital costs that were estimated in 2022, compounded by the rise in interest rates, put these options beyond the current financial capabilities of the council given other pressures on the capital programme.
- 2.5 Projected capital costs for a new build leisure centre have risen from £35m to £41.13m for a standard leisure centre. A Passivhaus centre or more sophisticated design that the council ought to be aiming for would cost in excess of £50m. At an interest rate of 4% the annual repayment cost on borrowing £41.13m is £1.84m per annum, compared to the annual repayment of £1.07m at the 2% rate. Over the life of a 50-year loan the cost of this option has increased from £53m to £92m.
- 2.6 Similarly, a major refurbishment of the leisure centre was previously costed at £30m with annual repayments of £954k. The same project will today cost £35.25m with annual repayments of £1.64m. The total cost over 50 years has risen from £47m to £82m.
- 2.7 To combat the increasing costs of construction and increasing interest rates, a menu of minor improvements for the leisure centre have also been compiled. These changes involve relocating the café, installing additional indoor play and glazing the pools to separate them from the dryside areas. These improvements would combat the centre's energy costs and its negative carbon impacts and would open up new activities for residents. Summaries of the advantages and disadvantages of the options are shown in the table below.

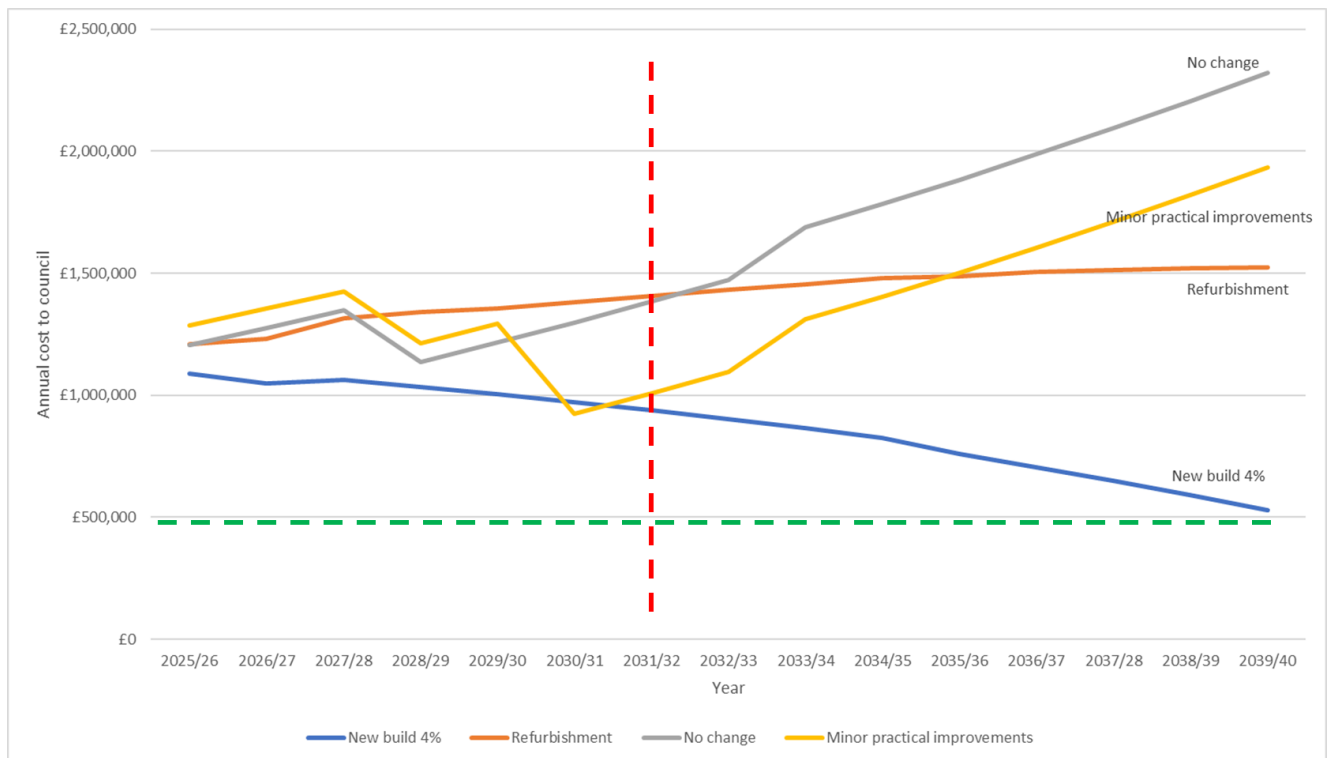
Option	Build cost	Advantages	Disadvantages
<p>New-build leisure centre Brand new centre at Mote Park to replace the existing building</p>	£41.13m	<ul style="list-style-type: none"> • Ability to take full advantage of location and re-orientate building to integrate with park and neighbouring facilities. • Efficient design of facility with facility mix that meets the current and future needs of the borough. • Will result in new business and significant uplift in revenue, customers and health outcomes. • More cost effective long term than adding to old facility structure. 	<ul style="list-style-type: none"> • Significant capital commitment required over the long term.
<p>Major refurbishment of the current building, retaining reusable parts and investing in new facilities also.</p>	£35.25m	<ul style="list-style-type: none"> • Retain structure of the building and reuse materials. • Central location adjacent to Mote Park and areas of deprivation. • Opportunity to improve links from the centre to the park. • Retaining existing customer base and attract new customers. 	<ul style="list-style-type: none"> • Limited scope to change configuration of building and facility mix layout. • Previous refurbishments resulted in short term rather than long term increase in usage. • Significant capital needs to be spent on back of house i.e. plant and equipment, roof replacement; which will not add to the customer experience of using the facility.
<p>No changes to the leisure centre</p>	£0	<ul style="list-style-type: none"> • Requires little investment at a time when investment decisions are difficult. 	<ul style="list-style-type: none"> • Aging building has a number of risks on the horizon that need to be budgeted for/managed.

			<ul style="list-style-type: none"> • Facilities not modern and do not give best service to residents. • Limited opportunities to increase number of customers and people choosing to be active.
<p>Minor practical improvements, including relocating the café closer to the entrance, installing new indoor play activities and installing additional glazing to screen the pools.</p>	£2m	<ul style="list-style-type: none"> • Will deliver new activities to customers and new revenue streams to the business • Will improve carbon emissions and energy costs at the centre • Only requires minor investment at a time when investment decisions are difficult. 	<ul style="list-style-type: none"> • Does not address all the issues and repair needs of the centre • Requires a payback period of at least 8 years

2.8 Appendices 1 and 2 show the financial projections of the different options and key points regarding the financial projections are presented below.

Financial considerations

2.9 Appendix 1 shows the comparisons in the financial projections of the four different options in 2025/26 and across the next 15 years. These are also shown in the graph below.



Graph 1 showing comparisons of four options until 2039/40

2.10 Graph 1 shows the annual outturn in the council's revenue accounts for each option. The horizontal dashed line on the graph is the current annual outturn, which has been a fixed sum since 2009. An increase in costs is expected in 2024/25, owing to the age of the building when the current operations contract expires and the capital that is required to complete repairs or manage risks. Graph 1 shows that over a 15-year period the new build option delivers the best financial performance, but as described earlier it requires substantial capital investment on less-than favourable terms. For comparison, graph 2 below shows the new build options costed at 2%, 3% and 4% over 50 years and demonstrates why now is not the right time for major investment. The dashed horizontal line shows the current annual outturn. At 4% the new build option takes 15 years to reach current outturn levels. At 2% the current outturn is the starting point, and annual improvements against that position would be delivered year on year.



Graph 2 showing interest rate comparisons for a new-build leisure centre

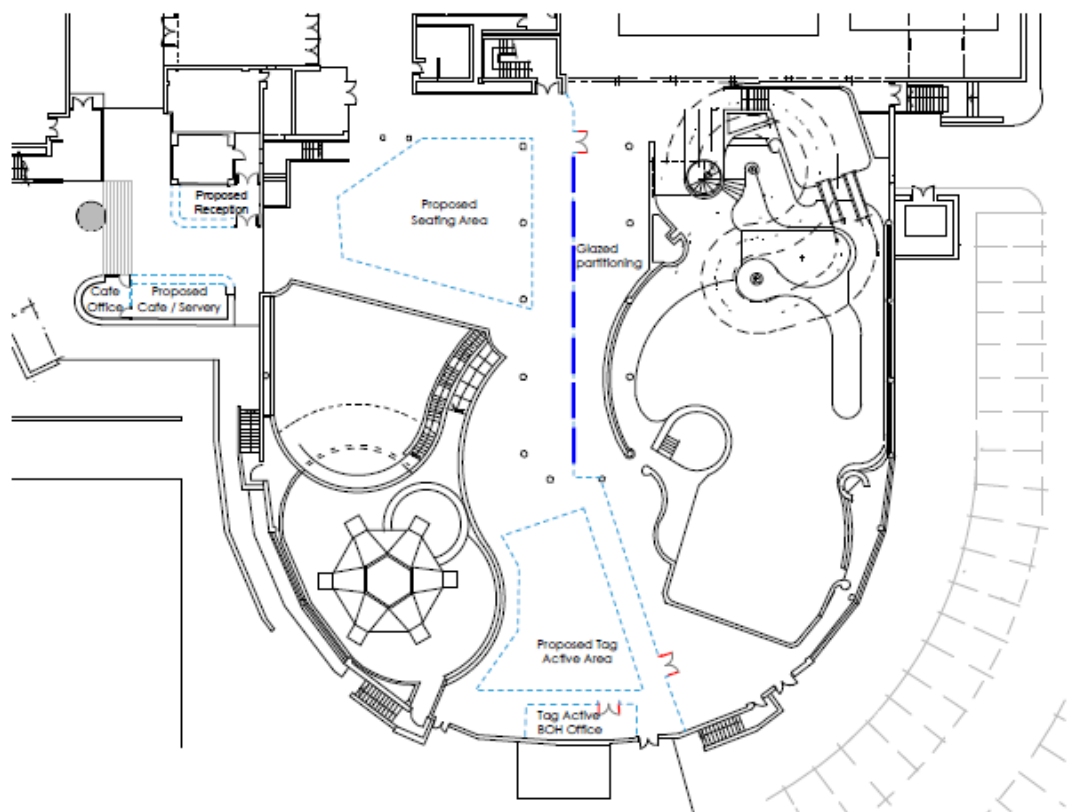
- 2.11 The major refurbishment option will sustain a consistent performance over the 15-year period. It achieves some cost savings but not as many as the new build option, and it also achieves less revenue than the new build. The borrowing needed for the refurbishment option is similarly unsustainable at the moment, as outlined in paragraph 2.6.
- 2.12 Based on the analysis of current interest rates and accepting that major capital investment for a new centre or a refurbished centre is not possible over 50 years in the current climate, attention turns to the no change and the minor practical improvements options in more detail.

Minor practical improvements

- 2.13 The no change option sees the centre continue to operate in its current layout, but an additional £1m will be needed each year over 15 years to support the risks of aging plant and building fabric. This budget does not necessarily require spending each year, but it must be made available should major repairs or replacement be needed in the short term. Working reactively in this way is not the best practice course of action, but investing significant sums in replacing major items of plant and fabric in a building when there are still questions over the long-term future of that building is also not advised. The no change option is presented with these repair and replacement sums included each year to show the costs that the council is facing.
- 2.14 Minor practical improvements to the reception and customer terrace area have been explored and are shown in the plan below. Glazing between the pool hall and the terrace café area will reduce the amount of air space that needs to be heated to keep the pool atmosphere at suitable temperatures and conditions. In turn, this will provide more comfortable conditions for

customers in the dryside areas, reduce carbon emissions at the centre, and reduce annual utilities costs. Moving the café closer to the entrance and the swimming lesson areas and reducing its size will help customer flows and improving staffing efficiencies. The space vacated by the café will be ideal for extended soft play facilities and these can be targeted at young teens, providing new activities for this target age group.

- 2.15 These works are costed at approximately £2m. The improvements will improve the annual operating position by approximately £367k by increasing customer revenue by 2% and assuming a 10% reduction in energy costs. However, the annual cost of delivering the improvements is £449k, resulting in the minor improvements option costing an additional £82k per annum to deliver its benefits compared to the no change option. The minor practical improvements investment has a forecasted repayment plan calculated over five years.



Plan of minor practical improvements

- 2.16 The minor practical improvements option will deliver community, health and environmental benefits. The improved centre will offer a greater variety of activities. By including indoor activities aimed at children and young teens it will target local young people at ages when good physical activity habits can be formed. The improvements to the air quality and temperatures in the centre will benefit all visitors and cut operational costs. These benefits are possible without any additional expenditure when projected until 2031.

Contract extension

- 2.17 For the operation of the leisure centre, the council contracts with Maidstone Leisure Trust (MLT) and Serco Leisure Ltd. MLT have provided the council with the following information *"MLT is an independent not-for-profit community benefit society whose principle purpose is to provide strategic oversight of the management of Maidstone Leisure Centre. By contracting with MLT, Maidstone Borough Council has access to significant tax exemptions and other benefits. The Trust is comprised of a number of volunteer trustees, all of whom have an active interest in sport and active leisure in the borough of Maidstone and some of whom have been trustees throughout the term of the current leisure centre operating contract. Information on the Trust can be viewed at www.maidstoneleisure.org . Day to day running of the leisure centre is carried out by Serco Leisure who operate as the agent for MLT to enable the Trust to fulfil the obligations of the leisure centre contract. Beyond the leisure centre, MLT also supports sport and active leisure locally with grant funding for sports clubs and individuals.*
- 2.18 *"The original 1970's leisure centre building is in need of bringing up to date to be able to meet current and future needs of users. MLT fully supports the council in their aspiration to build a new leisure centre with contemporary and up-to-date specifications and is active in supporting the council in their planning process. However, MLT does recognise the constraints of planning a new build in the current financial environment and is supportive of the council's plans to make improvements to the current building and provision in the short term whilst longer term plans for a more permanent facility are progressed. Both MLT and Serco Leisure will be supportive of the council in that process."*
- 2.19 The contract with Maidstone Leisure Trust and Serco Leisure is due to end in August 2024. At the current time, an offer of a new contract to the market, without a clear plan of the future of the building, would be perceived as highly risky by potential bidders. Future operators will price that risk accordingly and place a premium on it if a contract is let for a period of 10 years or longer. Accordingly, it is proposed to seek a contract extension with Maidstone Leisure Trust and Serco Leisure Limited until 2031.
- 2.20 The minor improvements described above have a lifespan or a payback period of around six years, making them more suited to a contract extension than to a new contract of a longer length. They include items that will increase visitor numbers, increase revenue and reduce operational costs, making them an attractive proposition.

3. AVAILABLE OPTIONS

- 3.1 The age of the leisure centre means that at some point it will need significant investment or it will need replacing. The decision in 2023 is whether replacing Maidstone Leisure Centre needs to be done in the short

term or if it is a decision that can be considered further before the best course of action is chosen.

3.2 A new leisure centre would deliver multiple benefits for the borough, however the Council is approaching this project at a difficult time. Even if a new centre were the preferred option, it would be a financial challenge to deliver it in the current circumstances alongside the other strategic priorities the Council has. Against this backdrop the options are as follows:

3.3 **No changes to the leisure centre**

The age of the leisure centre and the forthcoming contract end date mean that taking no action on the leisure centre will result in the council advertising the least-attractive option to future operators and fail to address the repairs and replacement items that are likely to be required in the next five years. **This option is not recommended.**

3.4 **Proceed with major capital investment in a new-build leisure centre or a major refurbishment of the existing**

Paragraphs 2.4 to 2.12 describe the risks and limitations of pursuing this option in 2023. The total cost of delivering such investment has risen to more than £90m and pursuing at this time on these terms is not the best course of action. **This option is not recommended.**

3.5 **Proceed with minor practical improvements**

This option will increase visitor numbers to the centre, increase revenues and address some of the operational challenges the centre faces. It will add new activities, catering for target demographics, and address customer flows. It will also make a positive difference to the environmental impact that the centre has on the borough and reduce energy usage. The costed plan shows it can achieve these outcomes with the same net cost as the no change option, and it also contains the same budgetary resilience while the risks of the aging building continue to be monitored. **This is the recommended option.**

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Minor practical improvements will deliver the optimum level of benefits to the community and to the council, at the most affordable level of investment and also in line with the council's strategic objectives of delivering a sustainable and vibrant leisure and culture offer across the borough.

4.2 Some of the work can be done with zero disruption to customers, other aspects will require limited changes to the programme and some aspects will require parts of the centre to be closed. It is estimated the work will take approximately seven months to complete and this aspect of the project can be included in the tender documentation.

4.3 The community, health, financial and environmental benefits will be positive things to add to the contract extension discussions due to take place between the council and Maidstone Leisure Trust. The contract extension

will secure the continued operation of the centre in the short term, while efforts continue on the long-term improvements that the leisure centre requires.

- 4.4 With 2031 identified as a key date for resolving the future of the leisure centre, a timeline that enables major investment to take place before 2031 is a sensible thing to put in place. To be open to the public in 2031 construction will need to begin in 2028. Working backwards from these dates an outline timeline is suggested in the table below. Please note, the minor practical improvements are shown as completed in 2024 because Maidstone Leisure Trust is a major partner and timetabling the works in their lease and contract period will require their partnership. 2024 is the latest date it can be completed.

Year	Major milestone
2023	
2024	Minor practical improvements delivered and contract extension agreed. Consultation and feasibility work on required investment for a new facility or major refurbishment continues
2025	Consultation and feasibility work is completed, and type of project (new or refurbished) is identified
2026	Plans and designs of type and level of investment are finalised
2027	Planning approval obtained and contractors appointed
2028	Construction work commences
2031	Investment work is delivered

5. RISK

- 5.1 There are risks associated with all the options described in this report. The risks associated with the preferred option include the continuing management of a building that is more than 50 years old, and these risks are balanced against the risks of the increases in construction costs and current interest rates, which make the current time the worst to be committing to new large capital projects. There are risks that construction costs and interest rates continue to rise, or are just as inflated, in 2031.
- 5.2 The recommendations in this report protect the Council from exposure to volatile construction costs and increased interest rates in the short to medium term. By following the recommendations, the Council will be able to monitor these risks and consider future leisure centre recommendations in the medium term at a time more suitable to major investment.
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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Extensive consultation has taken place on this subject, including the Sport England-sponsored leisure consultants' report and the Leisure department's rural focus groups. These were referenced in the December report, a background paper to this report.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 A timetable for decision making and next key steps is as follows:

ERL PAC	7 February 2023
Executive Meeting	8 February 2023
Begin discussions with MLT and Serco Leisure regarding contract extension	15 February 2023 onwards
Checkpoint for concluding the contract extension or considering other contract options further.	31 August 2023

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Financial comparisons between options
 - Appendix 2: Financial projections of each option
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9. BACKGROUND PAPERS

- *Future Options For Maidstone Leisure Centre – ERL PAC – 6 December 2022*