

Report to the Cabinet

Report reference: C-055-2020/21

Date of meeting: 21 January 2021



**Epping Forest
District Council**

Portfolio: Finance and Economic Development – Cllr J. Philip

Subject: Bakers Lane and Cottis Development Sites – Options

Responsible Officer: Andrew Small (07548 145665).

Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

Consider the options set out within the report and;

- (1) Agree the inclusion of the Revenue and Capital implications associated with these schemes within the Cabinet’s Budget and Medium-Term Financial Plans and their Capital Programme proposals for Council, and;**
- (2) Subject to Council’s agreement of these plans, to instruct officers to enter detailed negotiations with Qualis and Places Leisure for the delivery of these proposals, with the final form of the agreements to be brought back to Cabinet at a later date for agreement.**

1. Executive Summary

- 1.1. When the Council agreed to create Qualis it had several main purposes. One of these was to progress key regeneration sites within the District. These sites were grouped together a single transaction for planning purposes in order that the combined housing, leisure and environmental impacts could be mitigated across them all.
- 1.2. Key elements of this approach were a proposed Leisure Centre and a Multi-Storey Car Park in Epping, replacing the aging 1970’s sports facility in the Town which is now approaching the end of its useful life. Both the sports facility and the car park are critical, in Planning terms, to unlocking the other regeneration sites within the Town.
- 1.3. The required leisure provision associated with the housing elements of the development were to be offset by a leisure contribution in the form of a new leisure centre in Bakers Lane, Epping, replacing the existing Hemnall Street site. The Leisure Centre provision met both a requirement and an ambition set out within the Council’s strategy and policy documents (including the Corporate Plan 2018-2023, Local Plan Submission Version December 2017, Health & Wellbeing Strategy 2018-2028, and the Built Leisure Facilities Strategy 2018).
- 1.4. To harmonise the provision of leisure offers and the approach adopted to pricing across the district, the assumption was that Epping Forest District Council would purchase the completed development and then add this to its portfolio of other leisure centres, (Loughton, Chipping Ongar and Waltham Forest), within the Places Leisure operational contract.

- 1.5. As the redevelopment of the sports centre site would result in a net deficit in parking spaces, the overall regeneration proposals require the existing surface car park in Cottis Lane to be replaced with a Multi Storey Car Park.
- 1.6. **This paper considers the options and cost implications and sets out a recommended approach, including that provision be made within the Council's future and long-term revenue and capital spending plans for the Council.**

2. Detailed Report

- 2.1. The Council, in part, created Qualis to move forward with a number of regeneration sites as part of the Asset Management Strategy developed in 2019. It was agreed that these sites would be sold to Qualis at market value and the Council would help by providing the finance to Qualis to enable them to buy the sites from the Council.
- 2.2. The sites are;

	Red Book Value
St Johns	£7,842,500
Bakers Rd	£2,180,000
Cottis lane	£3,470,000
Hemnell Street – Epping Sports Centre and Offices	£2,030,000
Condor Site	£2,050,000
Roundhills – Waltham Abbey Old Pool Site	£1,390,000
Total Value of EFDC Assets Transferred	£18,962,500

Note: Pyles Lane was originally identified as surplus to the Council's requirements but was not included in the initial transfer whilst the options for future use of the site were reconsidered.

- 2.3. Given the on-site constraints posed by each of these sites individually, it was agreed to transfer these on-bloc to Qualis in order that the Planning requirements, associated with the Epping sites in particular, could be offset holistically by viewing all sites as a single regeneration proposal.
- 2.4. For example, the net additional leisure requirements associated with the housing elements of the combined proposals would be met by providing a new larger leisure facility in Epping Town, thereby replacing the existing leisure facility.
- 2.5. As the cost of a new leisure centre would far exceed the Leisure S106 obligations associated with the development proposed by Qualis, and as the Council had an existing desire to increase the total amount of Leisure provision across the main towns within the district, the assumption was that the Council would purchase the final leisure centre from Qualis.
- 2.6. This centre would complete the portfolio of Council owned leisure centres, (Loughton, Chipping Ongar and Waltham Abbey), across the district and ensure that District was well served with modern facilities. Under the existing Leisure management contract, if

developed, the Council would in all probability ask Places Leisure to operate the centre under their existing contract.

- 2.7. The redevelopment of the existing leisure centre site at Hemnall Street and Bakers Lane will leave a car parking deficit within the Town. As availability of parking is already limited within the Town, the proposed developments will only get approval if the Car Parking lost through development is replaced.
- 2.8. By grouping the regeneration sites together, the challenges created by redeveloping one site can be mitigated through the others. The Qualis solution is therefore to redevelop the existing surface car park at Cottis Lane with a new Multi Storey Car Park, thereby replacing all lost spaces from the development of the 3 sites with the new car park at Cottis Lane.
- 2.9. To ensure no significant temporary deficit during the redevelopment phase, the Cottis Site would need to be redeveloped and completed before work could commence at Bakers Lane and Hemnall Street.
- 2.10. Qualis has already undertaken a significant public consultation exercise on their proposals and have amended their plans based on the feedback received. They are now imminently in a position to submit a planning application for the plans but require clarity from the Council on the future ownership of the sites.
- 2.11. The report explores the options available to the Council, in order to obtain best value for money, in more detail.

3. New Sports Centre at Bakers Lane

- 3.1. The combined proposal for the regeneration of the Epping Sites includes provision for an enhanced leisure facility in the Town. The solution proposed is to demolish and redevelop the existing and aging Hemnall Street site with a new modern facility at Bakers Lane.
- 3.2. The requirement goes substantially beyond the leisure commitments that a developer would be required to meet for a development of the size, and is proposed in this form to essentially meet a long held Council strategic ambition to complete the portfolio of modern Leisure Centres in the District by adding to the existing new, or refurbished facilities in Loughton, Chipping Ongar and Waltham Abbey.
- 3.3. As part of the creation of Qualis the Council had agreed to sell the Bakers Lane site to Qualis for regeneration, but at that time there were no firm plans as to which aspects of the wider regeneration proposals would take place on which site. The value attributed to Bakers lane is £2.18 million, as determined by an independent valuer.
- 3.4. The Council agreed to lend Qualis the £2.18 million that Qualis required to buy this site from the Council with the Council securing the loan on the development site. In return the Council receives interest on the loan at 4.94%, equivalent to £107,692 per annum. This transaction has yet to be completed because of issues over title, but also for reasons explained in this report.
- 3.5. Through the development of the regeneration plans, Qualis has determined that the optimum allocation of developments across sites means that the sports centre requirement needs to be located at Bakers Lane.

- 3.6. Qualis commissioned an independent professional review of the Leisure requirement for this site from 'Sports Consultancy' and this is attached as Appendix A to this report.
- 3.7. The Council has a 20-year contract with Places Leisure to operate its existing Leisure Centres. This also extends to any new centres the Council wishes to develop during the lifetime of the contract. The contract also includes provision for them to design, build and operate any new facility proposed by the Council. The Council would usually fund the construction and would either benefit from or pay the operator for the ongoing cost of operation as agreed prior to signing the contract.
- 3.8. On the assumption that the site was sold to Qualis for development, Qualis has been leading on the design work for the new sports centre. However, in recognition that the facility would be passed back to the Council and therefore in all probability added to the existing portfolio of centres managed by Places Leisure, Qualis has also been working closely with Places Leisure to agree the specifications for the centre.
- 3.9. This has allowed both parties to agree designs ahead of a submission for Planning and this has allowed in the last few weeks for the detailed designs to have a preliminary cost estimate applied for modelling purposes together with an estimate of the operational costs. These estimates are also included in Sports Consultancy review and are attached as Appendix B, (these pages have been deemed confidential because they will be used in commercial negotiations).
- 3.10. The estimated cost of construction for the leisure centre has been determined by Qualis as approximately £25 million, but this will need to be tested through procurement and/or as stipulated in the current leisure contract and the clauses relating to the provision of new and replacement leisure centres.

4. Sports Centre Design Proposals

- 4.1. Following the two-stage consultation undertaken by Qualis the proposed design for the Bakers Lane leisure centre includes a 6 lane 25m main pool, a 10m learner pool, a 4 court sports hall, a 100 station health and fitness space, 3 fitness studios and 2 squash courts. More details are contained in Appendix A within sections 4 and 5 of the Sports Consultancy document.

5. Sport Centre Build Options

- 5.1. Based on the initial costs estimates and the clearer picture emerging as to what facilities will be built, where they will be built and who will operate them, two scenarios have emerged. These are set out below

Option 1 – Qualis Design, Build and Sell

- 5.2. The first option is for Qualis to continue through the Planning process and then procure and oversee the construction of the Leisure Centre on this site as originally envisaged.
- 5.3. Under this option, the Council agrees a price for the acquisition of the completed development and enters in to contract. Qualis then design the centre, gets Planning agreement and then procures a contractor to undertake the physical build out.
- 5.4. In this scenario, Qualis accepts and underwrites the financial risk of any problems occurring during the construction process, but equally stands to gain from the developer profits from completing the development within time and within budget.

- 5.5. The advantages for this approach are set out below;
- Qualis controls the development and is better placed to challenge variations
 - Qualis benefits from the Developer profit (as would the Council, indirectly)
 - Through Qualis, the Council would have better visibility on cost
- 5.6. The disadvantages of this approach are;
- Leisure Centre and Pool construction are complex and technical builds and any snagging issues could cause delays in handover to Places Leisure
 - The proposal involves large amounts of excavation, and in this there is always higher risk
 - The sale and repurchase of the site incur Stamp Duty on both transactions
 - Via the Council's ownership of Qualis, the Council ultimately underwrites the risk
- 5.7. Option 2 – Council ask Places Leisure to Build and Operate the facility
- 5.8. Under this option the Council would retain ownership of the Bakers Lane site and then exercise the current Design Build Operate and Manage (DBOM) arrangement within the Contract with Places Leisure for them to Build the Centre and then operate it. This was the arrangement used for delivery of Waltham Abbey Leisure Centre.
- 5.9. Exercising this option would require the Council to acquire the rights to the work already undertaken by Qualis, in terms of the design work and Qualis securing the Planning permission. As this work has been carried out in conjunction with Places Leisure this work should be portable and would not need to be reperformed by them, thus not duplicating the cost.
- 5.10. The advantages of this approach are;
- The construction risk is passed to Places Leisure and the Council is protected
 - Places Leisure has specialist experience in building such facilities
 - As operator and developer, Place for Leisure will have no recourse on build issues
 - Places Leisure have preferred existing contractor relationships, thus delivering better value
 - As this work is specified in the Places Leisure contract, this is effectively pre-procured, (as is Qualis)
 - The Council avoids Stamp Duty on the sale and repurchase of the site to Qualis
- 5.11. The disadvantages of this approach are;
- The Council would not pay a developer's profit to Places Leisure but a management fee for delivering the DBOM scheme,
 - The Council would have less control over the cost of development as it is contracting with a third party.
 - The Council would retain certain risks, for example so far unknown underground contamination.

Conclusion

- 5.12. Both options have merits, but the fact that a Leisure centre is a complicated build project and that considerable excavation is required on the Bakers Lane site creates

risk. Even though Qualis would accept the risk as a contractor, the ownership model for Qualis means that the Council would still indirectly and ultimately be impacted, (through reduced dividends), if costs escalated.

- 5.13. In addition, the sale of the site and buy back of the completed facility is inefficient in tax terms.
- 5.14. Therefore, retaining the site and using the Council's pre-procured specialist contractor to undertake the development, thereby removing the Council from the development risk, presents a better overall solution for the Council.
- 5.15. There are various iterations of this approach the Council could explore, for example, retaining the site and asking both Qualis and Places Leisure to quote for the construction. This would benchmark the Places Leisure cost and ensure the cost was a reasonable estimate.
- 5.16. Equally, the Council could procure Qualis to act as its Client Agent to oversee Places Leisure's development of the cost estimates and the construction phase. This would supplement the Council's own resource with the Qualis specialist construction expertise, thus allowing the Council to better challenge costings and design approach.
- 5.17. It is therefore Recommended that the Council retain the Bakers Lane site and enters pre-construction negotiations with Places Leisure as allowed for in the existing Design, Build and Operate the Council has with them. The Council should also explore with Qualis options for benchmarking the commercial negotiations with Places Leisure, options around a client-side role and the potential costs for acquiring all design and planning work undertaken by Qualis to date.

6. Resource Implications

- 6.1. The proposed Sports Centre at Bakers Lane is currently not provided for within the Council's Capital Programme and if the proposed approach is approved then Cabinet will need to request Council to make a provision and reflect the financing and operating costs in the Medium Term Financial Plan so that negotiations can commence with Places Leisure.
- 6.2. As the Council does not have any significant capital reserves, the funding for the scheme would need to be from new borrowing. Any requirement to borrow may be mitigated by new Capital Receipts, but the consideration of this will need to form part of the capital planning process. Although not ring-fenced to specific schemes, the sale of the regeneration sites in Epping Town to Qualis at £16.8 million have yet to be committed to schemes in the capital programme and could in theory be used to reduce any borrowing repayments costs.
- 6.3. Along with the borrowing costs and the operational cost impacts of the new centre, the income loss associated with the temporary and permanent loss of Car Park income will also need to be reflected in the Council's Medium Term Financial Plans. This may be partially offset by the lending return achieved on new lending to Qualis associated with the Council providing the regeneration finance required.
- 6.4. Currently, the Leisure Centre contract with Places Leisure (ignoring the impacts of Covid19) returns a net payment to the Council each year. The cost of operating the proposed new Epping Leisure Centre has also been modelled by Sports Consultancy and it is believed that this will operate at a surplus, based upon the proposed design.

However, the amount Places Leisure may be prepared to pay the Council for the right to manage this additional site will only be known following detailed discussion with them.

- 6.5. The table below sets out the potential capital and revenue cost implications of a decision to construct a new sports facility in Epping Town, in order to help inform decision making and to aid the development of Capital and Revenue Planning.

	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
Epping Leisure Facility				
Capital Outlay				
Acquisition	-	12,500,000	12,500,000	-
Capital Programme Provision	-	12,500,000	12,500,000	-
Revenue Costs				
<i>Capital Financing Costs</i>				
- Minimum Revenue Provision	-	-	313,000	625,000
- Interest	-	-	187,500	375,000
<i>Loss of Car Park Income</i>				
- Bakers Lane	-	186,000	186,000	186,000
<i>Operator Charge / Subsidy</i>				
Places for Leisure (estimated)	-	-	- 250,000	- 250,000
<i>Qualis</i>				
Loss of Lender's Margin for Bakers Lane	108,000	108,000	108,000	108,000
Net Revenue Impact	108,000	294,000	544,500	1,044,000

Notes and assumptions:

- 1.) The capital costs are fully funded from new borrowing – the use of Capital Receipts, such as the £16 million sale of the development sites in Epping Town would significantly reduce the Minimum Revenue Provision required
- 2.) Interest payable is assumed at 1.5% based on current costs of borrowing
- 3.) Bakers Lane income is based on 2019/20, income was significantly less in 2020/21
- 4.) The operator payment is estimated and will not be known until negotiation conclude

- 6.6. As part of the Qualis Business Case, the Council has committed to provide the £66 million of regeneration finance required to undertake the development of these site. The terms for providing this funding have yet to be agreed, but it is expected that the margin the council will charge for this finance will cover the majority of income losses from car parking redevelopment in 2021/22.

- 6.7. The reduced income assumption from car parks income in 2021/22, due to the expected ongoing impacts of Covid19 during the first part of the year, will assist in mitigating any net cost.

6.8. The estimate of costs are only high level at this stage and are provided for the purposes of making provision within the Capital Programme and budget development for 2021/22. If the proposed approach is agreed then the next phase of work will be to work with Qualis and Places Leisure to refine the cost estimates and agree terms for proceeding.

7. Legal and Governance Implications

7.1. None at this stage

8. Safer, Cleaner and Greener Implications

8.1. None.

9. Consultation Undertaken

9.1. None.