

**Report To:** Council

**Date of Meeting:** 31<sup>st</sup> January 2017

**Lead Member / Officer:** Cllr Hugh Evans / Cllr Huw Jones/ Jamie Groves

**Report Author:** Jamie Groves, Head of Facilities, Assets and Housing

**Title:** Rhyl Waterpark and Leisure Attraction

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**1. What is the report about?**

1.1 This report considers proposals for the development of the 'Rhyl Waterpark and Leisure Attraction' – working title (RWLA).

1.2.1 The report sets out the required information for a Council decision on whether to proceed with the RWLA, alongside the necessary capital and revenue provision.

**2. What is the reason for making this report?**

2.1 A decision is required by Council to approve the recommendation of the Strategic Investment Group to proceed with the development, and funding, of the RWLA.

**3. What are the Recommendations?**

3.1 To approve the recommendation of the Strategic Investment Groups to adopt option 2 of the business case for development of a new Waterpark and Leisure Attraction in Rhyl as part of the overall Rhyl Regeneration and Waterfront development programme as described in **Appendix B**. This includes assumptions of financial contributions of £2m from Rhyl Town Council and £800k from the Welsh Government TISS fund.

3.2 To agree the funding strategy as set out in Section 6.

3.3 To instruct officers to progress with the next stages of implementation, including seeking planning approval and securing funding contributions from Rhyl Town Council and Welsh Government, enabling the facility to be operational by early 2019.

**4. Report details**

4.1 The future upgrading of the leisure and tourism offer on the coastal front is considered the most critical element of the overall regeneration of Rhyl – serving as a better place to live as well as a great place to visit. The sequence of events leading to this development proposal has spanned over 6 years and is set out in **Appendix A**.

- 4.2 It is important to note that the proposals for the new 'Waterfront' have been developed in such a way as to complement the whole coastal regeneration plan and, because of its location (next to the Sky Tower & Cinema, opposite the new Premier Inn development and close to the Town Centre/High Street retail area), serving as a catalyst for attracting more footfall into Rhyl and driving increased visitor numbers through the Town Centre.
- 4.3 A decision to proceed with the new facility will also help stimulate investment by other private sector partners – as a dynamic for increasing visitor numbers in the area, it will underpin their emerging business plans for future developments.
- 4.4 A detailed description of the vision, design brief and proposals is attached as **Appendix B**.
- 4.5 Two options for the facility have been developed. The original option (Option 1) included transfer of the formal swimming waters from Rhyl Leisure Centre to the new facility. This was on the basis of anticipated economies of scale of having all wet leisure offers in one building. A second option (Option 2) has now also been developed that retains formal swimming waters in their current location at Rhyl Leisure Centre. A detailed appraisal and options matrix is attached as **Appendix C**.
- 4.6 The purpose of this option review was to consider both the potential for achieving savings in both the capital and revenue budgets necessary to undertake the development of the RWLA and the best delivery model for the formal, community swimming offer to most effectively serve local needs. The conclusion of the review is that Option 2 represents the best value for money and customer experience and also still meets the regeneration objective of increased footfall for the town centre as **Appendix E**.
- 4.7 Finally, it should be noted that the proposed Waterpark and Leisure Attraction will remove the skate, and water-play, parks. However:
- Relocation options for the skate park will be explored in consultation with local young people. This will secure enhancement, allowing current, best practice experience of skate park provision to be applied in adopting the most appropriate location, as well as offering new, more attractive, design features. This process will start once approval for the Waterpark has been given. It should be noted that notwithstanding the Waterpark development, the existing Skatepark is in need of replacement due to its age and condition.
  - The water play park will be replaced by a significantly enhanced outdoor splash pad, and sun terrace, as part of the new development.
- 4.8 If approved by Council, the anticipated timeline for delivery is as follows:
- March 2017 – planning process started.
  - July 2017 – planning approval secured.
  - September 2017 – start on site.

- Early 2019 – Aquatic Centre opens.

## **5. How does the decision contribute to the Corporate Priorities?**

- 5.1 The RWLA is an essential component of both the Economic Ambition Strategy 'Developing the Local Economy' (bringing footfall into the town centre, creating jobs, increasing spend in the local economy, improving salaries) and has been at the forefront of the Rhyl Waterfront Development Strategy. It is a core component of the current phase of the Regeneration strategy for the town, which focuses on increasing footfall/visitors and filtering their additional spend into reinvigorating the Town Centre and its businesses.
- 5.2 The vision within Denbighshire's Leisure Strategy is to increase the number of people participating in a range of leisure opportunities and work with partners to make best use of resources to design, deliver and promote leisure across Denbighshire. Our Leisure Strategy sets out our vision and commitment to improve access to high quality settings in which to enjoy leisure activities, for both visitors and community alike.

## **6 What will it cost and how will it affect other services?**

- 6.1 Two options have been developed for the proposed facility:
- Option 1 comprises 25m 8 lane swimming pool with spectator gallery, indoor and outdoor water play areas, including flumes, a large children's soft play activity zone and a climbing zone.
  - Option 2 provides the same leisure activities as Option 1 but leaves the community swimming provision at Rhyl Leisure Centre, reducing the size and complexity of the building design. This option is a more recent proposal developed, the cost and income estimates are reasonable and detailed in **Appendix F**.
- 6.2 Capital costs for the options are as follows:
- Option 1 - £17.9M, with a Prudential Borrowing equivalent cost of £1,104k
  - Option 2 (Preferred and recommended option) - £15.4m, with a Prudential Borrowing equivalent cost of £962k
  - Both options include within the capital costs provision for relocation of the skatepark.
- 6.3 Officers have already secured support in principle for capital contributions from both Rhyl Town Council (£2M) and WG Tourism Department (£800k). The latter includes an interest free loan element (30%), repayable within 10 years, which is assumed to be re-paid over years 5-10. These will reduce the Council's capital contributions and Prudential Borrowing costs by approximately £159k.
- 6.4 A Business Plan for the new facility has been prepared in house, using demand analysis from Alliance Leisure, our framework partner. It has been robustly reviewed internally by officers from Finance, Leisure, Property and the appointed Alliance Leisure project team as well as externally by Local

Partnerships. A sensitivity analysis has also been applied. The vigorous 'value engineering process' has included reviewing the figures and specification to reduce the costs as far as is possible without compromising the whole development or the bottom line income projections. **Appendix D** summarises this process.

- 6.5 It is anticipated that by year 5 of operation, the new Centre should be up to full operational strength. A prudent assumption of 60% occupancy by Year 5 has been applied as the base case for analysis, with additional cash flow support required in the earlier years as custom builds. (Current leisure facilities, including Nova, operate at around 76% occupancy).
- 6.6 The Business Case is based on the Council owning and operating the facilities itself, similar to the Nova model with Alliance Leisure the constructing.
- 6.7 Taking operating costs and income projections from the Business Case, the facility under both options is projected to make a surplus before Prudential Borrowing costs are taken into account. This surplus is then available to contribute towards the Prudential Borrowing costs.

This is shown in the table below:

<b>Business Case Models - Year 5</b>	<b>Option 1</b>	<b>Option 2</b>
	<b>£'000</b>	<b>£'000</b>
Prudential borrowing costs	1,104	962
<b>Less</b>		
Operating Surplus	603	668
<b>Net Trading Position</b>	<b>501</b>	<b>294</b>

### Funding Options

The business case options both generate an operating surplus before borrowing costs are applied but result in a funding requirement once these costs are applied. The funding requirement is reduced by £113k when the annual impact of the anticipated funding from Rhyl Town Council is taken into account and a further £46k when the impact of the additional Welsh Government funding is applied (albeit a provision will have to be made to repay 30% of this within 10 years).

- 6.8 In addition, budgets previously available for the Sun Centre and coast (£135k) have been retained and can be used to contribute towards the Prudential Borrowing costs.

Taking the three elements noted above into account, the funding requirement is reduced as follows:

<b>Business Case Models - Year 5</b>	<b>Option 1</b>	<b>Option 2</b>
	<b>£'000</b>	<b>£'000</b>
Prudential borrowing costs	1,104	962
<b>Less</b>		
Operating Surplus	603	668
<b>Net Trading Position</b>	<b>501</b>	<b>294</b>
Rhyl Town Council contribution	113	113
WG Contribution	46	46
Existing Budget	135	135
<b>Additional Budget Funding Required</b>	<b>207</b>	<b>0</b>

The table above shows the anticipated position in the fifth year of operation, applying an occupancy rate of 60% by year 5. For years one to four, a lower occupancy level is assumed as the facility becomes established. This lower occupancy level impacts upon the income received and therefore reduces the operating surplus.

6.9 *The RPT (Robin P Thompson Consulting Ltd) independent rationale for suggesting 60% as a prudent occupancy rate;*

1. *Current Nova performance (as independently) validated by consultants is achieving 73% occupancy*
2. *Data analysed on the Leisure estate and performance showed an average occupancy across consistently across all sites - 70% - 73%*

*RPT suggest 50% occupancy as a prudent position. This is often exceeded by operators, and strong operators such as Denbighshire Leisure will often overshoot this by some margin, as they have proved within other sites and developments. The principle is however, to ensure that when evaluating schemes, a cautious approach is considered.*

*In RPT's professional opinion, if Denbighshire Leisure continue to operate services as they have been, the wider seafront development takes place and trading conditions remain relatively stable; the 60% occupancy levels are a realistic and prudent position to take.*

6.10 Based on the preferred Option 2, the funding gap is estimated to be approximately:

- £378k in Year 1 (allowing for additional one-off set up/marketing costs £100k);
- £248k in Year 2
- £23k in Year 3 and
- £11k in Year 4
- Year 5 is targeted to break even as the business case assumption of 60% occupancy should be achieved.

6.11 The above funding is essentially financial provision based on the assumption that the performance doesn't achieve 60% until Year 5. If this performance is achieved earlier, the funding requirement can be reduced accordingly.

6.12 Council policy is that borrowing costs are not applied until the first full year of a facility being fully operational. If the building opens in early 2019 (effectively Year 0) costs and income will largely match.

6.13. A number of options are being considered to address the funding requirement in years 1-4. These include contributions from services, reserves and would be incorporated into the council's budget strategy for those years. A further consideration is that if the facility is not fully operational by April 2019, the borrowing costs could be deferred for a year, potentially completely removing the funding requirement for the first, second and third years. Facilities, Assets and Housing and Economic Development budgets have identified potential revenue savings that could contribute to the cash-flow requirement if needed. In addition there is scope to use reserves if needs be. Corporate financial support would be available to provide cash flow if for any reason the above were insufficient but this is thought to be unnecessary at this stage, particularly if borrowing is deferred for one year.

#### 6.14 Sensitivity Analysis

- The biggest area of cost sensitivity is around the operating surplus. The running costs are assured based on a detailed staffing model and detailed analysis and testing of other cost assumptions and demand. However, the income element of the business case holds the highest risk in terms of certainty and implication. While the income projections are not unreasonable, this is a different investment to previous leisure facility investments and is much more significant in scale than the Nova.
- The Council has a good track record in delivery of such investments but must be accepting of the risk around future income generation. For example, a reduction of 10% in the income would equate to approximately £250k and would add an equivalent annual pressure to the budget. But equally, if the business case were to over achieve by 10% there would be a positive gain on assumptions.
- Further additional capital contributions would reduce Prudential Borrowing costs. However, no such further opportunities have been identified. It had been hoped that the commercial elements of the Waterfront scheme would have created surplus capital receipts that could be applied to the scheme, but the commercial property market post Brexit is significantly less buoyant and prices have been suppressed as a result.

6.15 A more detailed financial commentary on the operating assumption is set out in **Appendix F**.

### **7. What are the main conclusions of the Well-being Impact Assessment?**

A positive assessment. The new facility could deliver significant economic benefits to both the local and regional economy. The additional leisure facilities will create capacity and encourage greater participation amongst residents and visitors. The development will act as a catalyst for further regeneration and create a sense of pride in Rhyl and Denbighshire.

## **8. What consultations have been carried out with Scrutiny and others?**

- 8.1 The proposal has the full support of Lead Members Huw Jones, and Councillor Hugh Evans. Extensive consultations have been carried out throughout 2016, including Member Area Group, Rhyl Waterfront Project Board, Cabinet briefing, Rhyl Town Council and strategic investment group. Relevant committees and boards have been consulted throughout the development stages. The original waterfront proposals were subject to public consultation in December 2015 and received overwhelming support. The views emerging from all those consultations have helped inform the recommendations.

## **9. Chief Finance Officer Statement**

This project is a significant regeneration investment in Rhyl. The Council has a good track record of delivery on similar projects but this is much more significant in scale. A detailed business case has been produced and tested and the assumptions made within it are reasonable. However, as with any business case, the assumptions can change over time, positively or negatively. Positive variations will be clearly welcome and would help to build further financial resilience into the model. Negative variations could also occur, particularly to a business case model that is so sensitive to changes in levels of income. For example, a 10% reduction to income levels, whether through occupancy or pricing, would cause a funding pressure of around £250k.

In approving the recommendation, the Council should therefore also accept the risk that if the facility does not achieve the business case model, either through unforeseen additional costs, lower income results or a combination of both, then it will create a financial pressure to be funded in future years.

The model as presented achieves a break-even position in Year 5 of operation but there is a funding gap in Years 1-4. A number of funding options have been identified that will provide the cash-flow to cover the gap.

## **10. What risks are there and is there anything we can do to reduce them?**

- 10.1 This is a major and complex project that, if approved, will proceed in difficult financial times.
- 10.2 The Rhyl Waterfront Project Board is reviewing the risk register and project management plan on an ongoing basis - it will be responsible for ensuring all of the required mitigation/amelioration measures are put in place. The fall-back position, in the worst case scenario, will be to retain the Leisure Centre aquatic offer and deliver for the time being what is affordable within the Council's own resources.
- 10.3 The main financial risks are summarised as follows:
- **Increases in capital costs** – the proposals are robust and cost estimates considered to be good. Additional design elements have already been added on advice from Planning. The main cost risk is associated with delay in

appointing a contractor - with steel prices increasing on an ongoing basis as one example; and still having to undergo the full planning consultation process. Once appointed through the Alliance framework, costs would be fixed but until then cost price inflation may apply and the construction market is beginning to 'warm up'.

- **Failure to achieve business case assumptions** – of these, the main risks relate to occupancy/visitor numbers. A prudent approach has been adopted, setting occupancy in year 5 at 60%. Failure to achieve this level of customer usage would reduce income and require additional funding to cover the Prudential Borrowing costs. 10% reduction in occupancy would create a budget pressure of approximately £250k pa.
- **Loss of capital contributions** – Rhyl Town Council members have given support in principle for a £2M contribution. WG Tourism funding is subject to a grant application process but indications from WG officials are very positive. The risk of non-achievement of this level of grant funding is felt to be very low.

10.4 The consequences of not proceeding are set out as a 'Status Quo/Do Nothing' option in the appraisal in **Appendix C**. Whilst financially a seemingly risk averse option, doing nothing, would jeopardise investment and have a significant negative impact on the local economy, visitor trade and public as well as investor perception. Furthermore, officer advice is that there is no alternative leisure attraction that could have the same positive effect on the desired regeneration in Rhyl.

## 11. Power to make the Decision

1. Section 2 Local Government Act 2000
2. Section 111 Local Government Act 1972