

AUDIT AND GOVERNANCE COMMITTEE



Report subject	Two Riversmeet Studios
Meeting date	19 March 2026
Status	Public report with exempt appendices
Executive summary	The report provides additional information requested from Audit & Governance Committee regarding the financial considerations for capital borrowing to fund a two-storey extension to Two Riversmeet Leisure Centre (2RM) to address the identified need for dedicated studio space in Christchurch. The investment aims to enhance the centres health, fitness and cultural offer, increase membership and income whilst supporting community wellbeing and aligning with the Council's corporate strategy.
Recommendations	It is RECOMMENDED that Audit and Governance Committee recommend to Council: a) Approval of authorised borrowing of the Council to accommodate the £1.8m financing for the extension at Two Riversmeet Leisure Centre proposal.
Reason for recommendations	Enhancing 2RM Leisure Centre with dedicated studio space will enable the centre under BCP Leisure to grow and strengthen its financial position by offering a refreshed, modern facility for Christchurch. The project aligns with the corporate strategy ensuring people can be active and healthy while expanding access to high-quality cultural, health and wellbeing services for the local community.

Portfolio Holder(s):	Portfolio Holder for Destination, Leisure & Commercial Operations
Corporate Director	Glynn Barton – Chief Operations Officer
Report Authors	Amanda Barrie – Director of Commercial Operations Helen Wildman – Head of Leisure & Events
Wards	Christchurch Town;
Classification	For Decision

Background

1. A paper was taken to Cabinet on 14 January 2026 recommending Cabinet to recommend to Council approving the building of a two-storey facility extension at Two Riversmeet Leisure Centre (2RM) through prudential borrowing creating two brand new multi-use studios costing £1.8m, subject to planning permission.
2. The Cabinet paper was approved and taken to the Audit and Governance meeting on 15 January, where the committee asked for additional information to be provided before making a decision on the borrowing.
3. This paper sets out the additional information requested by the Audit and Governance Committee.

Current Leisure Centre provision

4. Two Riversmeet Leisure Centre (2RM) is one of ten BCP Council owned leisure centres. Five of these are currently being operated in house as BCP Leisure.
5. This gap limits its ability to meet growing demand for group exercise, health and wellbeing, martial arts and cultural services.
6. A timeline is in place starting from 2027 to undertake a review of the management of leisure centres, looking at the position of leisure across BCP Council and to recommend the future management model.
7. Therefore, alternative management models have not been considered in the options appraisal for the studios.
8. In the meantime, BCP Council will need to continue to maintain the facilities ahead of this work to ensure they remain in line with the market and support the Medium Term Financial Plan (MTFP).
9. The 2RM Studio scheme draws directly on the learning from BCP Council's recent highly successful leisure investment at Kings Park Leisure and learning Centre in Boscombe, demonstrating the Council's ability to develop and operate facilities that are both financially robust and strongly aligned to resident demand, ensuring this asset performs effectively for the Council's wider leisure portfolio.
10. A market competitor analysis was originally completed to assess the need in addition to what had been identified through the Built Facilities Needs

Assessment. An updated analysis of the current provision can be found in appendix 9 (restricted).

11. Using the Sports England National Moving Communities data platform, engagement in group workout activities at Two Riversmeet sits at 20.86%, almost 10% more participants than the national benchmark of 10.90%.

Options Appraisal

12. Two options were presented to Cabinet, do nothing or take forward the business case with £1.8m capital borrowing.
13. The original business case for the borrowing can be found in appendix 2, however it should be noted that borrowing costs have been updated as per appendix 1 presented at Cabinet.
14. Footfall figure quoted in original business case are based on less comprehensive modelling that included spectators, parents, events, casual café traffic etc. Core participation footfall has since been more refined and is measurable through the Gladstone Leisure system. Refined footfall is detailed in point 34 below.
15. In addition to the two options provided in the 14 January cabinet paper, three additional options were considered in the early feasibility work which are identified as options 3, 4 and 5 in this report.
16. Consideration in the options was not given to building on a new site away from the leisure centre due to the operational costs a standalone centre would bring and the loss of the unique selling point of a community leisure centre.

Option 1 – Do nothing

17. As per Cabinet report 14 January 2026

Option 2 - Take forward business case with £1.8m capital borrowing

18. As per cabinet report 14 January 2026

Option 3 – Repurposing of the Squash Court

19. Repurposing the existing squash courts was explored as an alternative to building new studios in the early feasibility work. Surveys identified multiple structural and design constraints, including insufficient space and height for M&E requirements, lack of natural light and ventilation, the need to raise the roof, and the presence of a central retaining wall that would require intrusive pillars, reducing usable space.
20. With the major investment into the repurposing the converted space would only support 15–20 participants which was below the required capacity of 40 limiting the financial opportunities for income and unlikely to be able to deal with the class demand
21. Financially the conversion was estimated to cost around £1.1m for a single studio and would simultaneously reduce annual squash related income, including league and tournament revenue.

22. Given the considerable risks, reduced service offer, capacity limitations, and unfavourable cost–benefit position, officers concluded that re-provision is not a viable option.

Option 4 – Creation of a mezzanine level to the Sports Hall

23. Initial feasibility work showed extensive structural modifications would be required, including the construction of a new internal steel structure to form a first-floor studio.
24. Existing foundations were anticipated to be shallow, necessitating new piled foundations within the hall to support the steel structure with concerns identified regarding the stability of the existing glulam beams.
25. To provide access, additional alterations would be required on the first floor level and re configuration would be required for storage and plant impacting on the final size of the studio space delivered.
26. The sports hall would have been out of use for the full duration of the works impacting over £100k of income during the construction.
27. When assessing the income generation, the loss of revenue from one court would need to be factored into the calculation starting in a negative position

Option 5 – Creation of a single-storey extension adjacent to swimming pool

28. This option was quickly discounted, as it did not provide sufficient space for the studios, plant rooms, and storage requirements when calculations were undertaken.

Competitor analysis

29. A Strategic Leisure review of 2RM was independently undertaken by Strategic Leisure Limited and identified the need for a purpose-built studio facility alongside the built needs facilities assessment.
30. The report assessed 'Improved studio(s) are a necessity and will need to be investigated further to remain competitive and offer a complimentary portfolio'
31. A recently updated marketing report for BCP Leisure highlighted 'Without investment in the physical offer, the effectiveness of marketing interventions will remain capped, limiting the ability to drive sustained growth or materially improve the bottom line of BCP Leisure.'
32. Whilst there continues to be a trend of pop up gyms, they do not offer dedicated studio space or facility hire with a complete offering of facilities and dedicated classes reaching different cultures and demographics with the opportunity to grow community inclusion.
33. An up to date review of current competitors and provision can be found in appendix 9 (restricted).
34. Many of the competitors are for members only with a focus on gym memberships rather than dedicated studio space. In contrast, 2RM provides an accessible, community focused public leisure offer, designed to support broader wellbeing, social inclusion, and local engagement.

35. With an estimated 48,000 residents living in Christchurch, the scale of local demand provides a strong foundation for 2RM's offer independent of competitor behaviour. The Christchurch fitness market is varied, yet clear competitors emerge for the 2RM facility. While budget gyms and specialist providers meet specific segments, 2RM can clearly differentiate through quality programming, enhanced facilities, and a community focused leisure centre offer.
36. Evidence shows consistent unmet demand for peak time group exercise. This highlights a significant opportunity for 2RM to attract users seeking greater reliability and availability.
37. Crucially, none of these competitors provide a cultural offer for dance, martial arts, or similar community based activity, leaving a notable gap in the market.

Opportunity costs

38. The section compares three options, constructing a new two-studio extension, repurposing existing squash courts into a single studio and taking no action.
39. The creation of two new purpose built studios will increase the membership capacity of 2RM giving the opportunity to grow membership levels to a higher level by approximately 16% (approx. 40,000 visits) due to an increased footprint of the centre.
40. Repurposing the squash courts would fit 15–20 participants which would not give the opportunity to grow the membership and class size likely, resulting in duplication of classes and staffing costs and membership value
41. Repurposing the squash courts, while lower cost initially, results in substantial losses in revenue potential, service quality, loss of current income and futureproofing with a risk of future unknown costs from adapting the current building.
42. Doing nothing represents the highest long-term risk, preventing growth and allowing facilities to fall further behind market expectations with Christchurch being the only town with no studios in their public leisure centre.
43. The recommended option of a new build delivers the highest long-term financial return, operational capacity, and strategic benefit to meet both current and future demand.
44. The additional space from two new studios allows for the introduction of new leisure services to benefit the wider community and the introduction of cultural services for residents such as dance and drama through facility hire.
45. Investment in the leisure centre will secure the strongest income contribution to the MTFP, independent of the future management model.
46. A wider piece of work is currently underway with a Leisure Centre transformation across all of the five internally run leisure sites to be presented in a future to Cabinet later in 2026.
47. This paper will look at the maintenance investment with commercial opportunity to offset this along with efficiencies in energy from the investment.
48. 2RM is the only Council owned leisure centre in Christchurch and the only centre without purpose built studio provision highlighting the need for the studio

investment to maintain and grow membership allowing for a strong position against competitors.

49. The studios is a new build item whereby the timeline is built around nesting season and planning requirements.

Summary of financial implications

Membership analysis

50. Appendix 2 details the growth in membership numbers comparing actuals with investment and no studios, investment with studios and a no investment scenario.
51. Membership with the studio investment will have the ability to grow beyond the projected income due to an increased footprint of the centre with the studio build. This membership line has a sharp increase from the marketing of the investment moving to a maintain position and a small reduction after year 14. A sinking fund would mitigate any further levelling off and potential continue the maintain position.
52. The graph details investment within the centre without any new studios which will begin with growth and then level in line with maximum centre capacity without additional infrastructure.
53. The final line shows a levelling off without growth leading to an eventual decline in membership if no investment is made and no studios are built as the site which will mean 2RM no longer remain competitive within the market.
54. The UK Health & Fitness market report 2025 looks at engaging the next generation of fitness consumers. Health, fitness and wellbeing is seen as a non-negotiable for younger generations. Motivations for fitness are evolving beyond physical health to encompass social connection and mental well-being, particularly among Gen Z. Operators can capitalise on this market opportunity by creating engaging social spaces that go beyond fitness, building a sense of community and offering experiences that align with consumer priorities
55. Membership income relates to half of the projected additional income. The rest is through facility hire, pay as you go, party hire and secondary spend.
56. Sport England's 2025 economic analysis confirms that every £1 invested in physical activity generates £4.20 in economic and social value, demonstrating strong financial return for public-sector investment in activity spaces such as fitness studios.
57. The business case has been developed based on what we are aware of in the market at the current time taking into account population and demographic both now and in the future.
58. Assumptions are based on national leisure trends, current membership levels, competitor analysis, customer insights at 2RM and professional experience and judgement.

Financial sensitivity analysis

59. The capital team has supported the cash flow calculations and sensitivity analysis.

60. Appendix 1 details the capital investment and income generation based on 5.88% PWLB interest on borrowing as attached to the Cabinet report. This was based on full year equivalent income and expenditure assuming optimum membership take up, with a sinking fund starting from the beginning.
61. Further sensitivity analysis has been carried out, and this is summarised in Appendix 3 (restricted).
62. The gross cash flow model is not expressed in present value, however the Net Present Value has been calculated for each scenario discounted at 2%. The net present value calculation does not change the affordability picture for this scheme shown through the sensitivity analysis.
63. The estimated build costs of £1.8m including a contingency of 20% has been priced through the internal works team who would undertake the build giving comfort in the estimated figures provided. Three sensitivity analysis scenarios have been carried out assuming the project is delivered on budget, with 5% overspend and 5% underspend variability.
64. Appendix 8 gives a further breakdown of the most up to date build costs.
65. The original project costs included a 10% contingency however as seen in the most up to date costings with refined quotes there is currently a 20% contingency within the costs.
66. This contingency mitigates potential increases in the cost of supplies.
67. Capital funding will not be drawn upon until planning is complete. Should additional costs for the build be identified through the planning process, this would be reported at the milestone meeting ahead of any spade in the ground for a further assessment of risk.
68. A sinking fund of £10,000 per annum has now been profiled from 2028/29 (year 3), this is sufficient to provide an additional comfort of £227k across the 20 year repayment period to ensure major repairs are sustainable for the studios to remain of a high quality to retain the increased membership levels, and it provides a modest additional financial leeway at the beginning of the project.
69. Income generation sensitivity analysis has been carried out for 6 different scenarios. Three scenarios using the BCP low risk interest rate of 5.5% for borrowing and the same three scenarios using the PWLB prevailing interest rate of 5.88%.
70. The three scenarios for each interest rates variance are based on optimum membership increase of 260 (18%), minimum membership increase required to break even of 217 (15%) and a low membership increase of 144 (10%).
71. Income in 2026/27 has been assumed at 60% due to part year opening.
72. Cost of borrowing begins one year after expenditure is incurred which is in 2027/28 for this project and is calculated on a maturity basis (fixed amount over the life of the project).
73. Inflation for increased income and expenditure is assumed at 2% throughout the 20 years.

74. Membership increase is assumed immediately tailoring down gradually from year 12 to reach 90% in year 16 of the project.
75. The financial analysis shows that the project can sustain the higher prevailing interest rate of 5.88% and a budget overspend of 5% only with an optimum membership increase of 18% generating a surplus of £880,000 over the 20 years
76. A membership increase of 15% would break even if expenditure is on budget (surplus between £62,000 and £197,000), if expenditure is 5% underspent (surplus between £255,000 and £384,000), or if 5% overspent at the lower interest rate of 5.5% with a net surplus over the 20 year period £10,000.
77. A membership increase of 10% is not viable in any scenario, the additional income would be less than the cost of borrowing with a net deficit between £1.3 million and £1.8 million.
78. The best case scenario of lower interest rates, budget underspend of 5% and optimum increase in membership could generate a £1.4 million surplus over the 20 year period.
79. The worst case scenario of higher interest rates, budget overspend of 5% and lower membership increase of 10% could result in a £1.8 million deficit over the 20 year period.
80. Finance use published CPI forecasts to provide consistency across the capital projects appraisals. The forecasts published at the Autumn budget were estimating a degree of stability in the level of CPI between 2026/27 and 2029/30, the same forecast has been extrapolated for the remaining future years.
81. General repair and maintenance are manageable within the 2RM current budget as indicated in the cash flow model. The provision of a sinking fund for major repairs in a capital appraisal is good practice. The 2% inflation applied is to maintain the present value of £10,000.
82. Services don't consistently set aside sinking funds for major repairs in BCP Council, often when major repairs are required new business cases are put forward requesting new funding. The £10,000 is based on affordability, generating a £227,000 fund by year 20 will provide a considerable amount available towards major repairs reducing or avoiding further budget pressures in future years.

Prudential borrowing

83. As part of the prudential borrowing code, borrowing is not incurred specifically to individual projects and is not incurred in advance. At the end of the financial year capital expenditure is financed in the financial statements using the funding streams for the individual projects in sequence external funding used first, borrowing used last. There is often slippage with capital schemes, borrowing is charged based on the total expenditure funded from borrowing at the end of the financial year, therefore it is passed to the service during the following financial year.

84. Borrowing is managed through the treasury management function. Borrowing is incurred in bulk to sustain the bank balance therefore there may be some temporary internal borrowing dependant of cash flow.
85. The £133,416 reflects an estimate of part year of activity if the project is delivered timely as expected. The works are expected to be incurred in the same financial year. Expenditure incurred during the same financial year will be managed within the treasury management function as described above and the cost of borrowing will be charged to the service in the following financial year.
86. Finance calculates the cost of borrowing on a maturity basis (equal annual profile of principal and interest) across the capital projects appraisals on a consistent basis. Borrowing repayment is also charged to the service on a maturity basis, therefore this is consistent with the impact on the service budget.

Summary of legal implications

87. It remains necessary to comply with all relevant procurement requirements, including BCP Council's Financial Regulations and the Public Contracts Regulations 2015 and the Procurement Act 2023 (where applicable) for any other aspects of the works that are to be carried out by third parties under contract and purchase of equipment and/or materials.
88. In addition, it is necessary to comply with all requirements in respect of subsidy control, planning, Community Infrastructure Levy (CIL), any leases, property, Land Registry, land ownership, any contracts, funding conditions, funding applications, borrowing, capital borrowing, BCP Council's Constitution (including the Financial Regulations), requirements of full Council, where applicable.

Summary of human resources implications

89. The staffing structure in terms of building management is already in place within the Leisure Centre and therefore will not require dedicated staff in addition to the duty management of the site
90. Staffing requirements for classes are on a timetable basis with a mixture of casual and contracted staff undertaking these.

Summary of sustainability impact

91. The planning application will consider biodiversity and flooding with detailed risks assessments submitted as part of the application.
92. The proposed timeline takes into account environmental factors such as nesting season between March and August.
93. During construction phase best practice measures will be incorporated to sort and reuse materials generated by the demolition of the existing buildings/hardstanding and where practicable new materials will be sourced locally.
94. 2RM has a Building Management System (BMS) which continuously optimises the operation of the photovoltaic panels (PV), Air Handling Units (AHUs), Air Source Heat Pumps (ASHPs), and boilers to ensure they are running at peak efficiency. The proposed studio would integrate with the existing BMS

infrastructure, allowing it to be monitored, controlled, and optimised in exactly the same way as the current building system.

95. With the considered approach by the design team and client, the proposals will meet the requirements of sustainability, as required and in accordance with paragraph 39 of the council's Local List of Requirements for planning applications.

Summary of public health implications

96. Taking forward the business case option will provide the opportunities for increased fitness and activity amongst residents and allow for development of class timetables to support a wide variety of classes for different abilities better delivery for community needs.
97. A wider choice and ability for specialist programmes will support the growth of the GP referral scheme and the transition of members from the referral into memberships.
98. A 2025 Moving Communities study showed that activity delivered in public leisure centres prevented over 28,000 costly health conditions in one year and saved the NHS £398 million. Activities such as yoga, low-impact aerobics, and group exercise classes, were highlighted as especially impactful for older adults and underserved groups

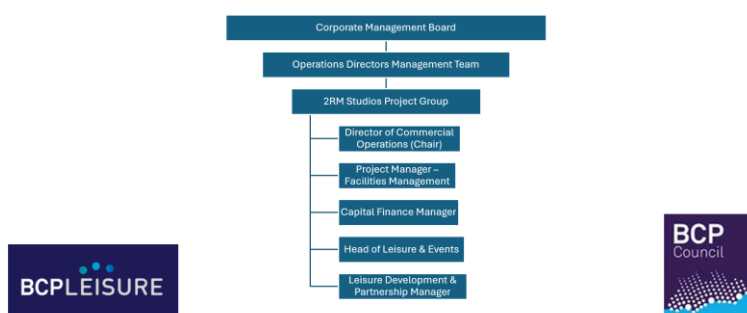
Summary of equality implications

99. An EIA conversation has been undertaken and reviewed by the Equality team.
100. Additional timetabling will allow for greater consideration for the physical health, mental health, rehabilitation, early intervention, child and adult education, special educational needs, accessible needs, inclusivity and culture focused services.

Summary of risk assessment

101. The overarching project risk assessment can be found in appendix 5.
102. The Cabinet paper from 14 January provides a summary of some of these risks.
103. The below table shows the governance structure to support the risk mitigation of the project.

2RM Studio Project Governance



104. The Director of Commercial Operations will be the Senior Responsible Officer (SRO) and will act as chair of the Project group.
105. Terms of reference with defined roles and responsibilities for officers on the project group will be drafted during the planning phase led by the SRO.
106. In line with other Council projects such as the insourcing of three leisure centres, there will be a live risk log for the project and the hierarchy of controls will be used as the principle for the management of these risks with elimination being the preferred approach.
107. A risk strategy will be applied to the log in terms of prevention, reduction, transferred, accepted or contingency.
108. Should the risk tolerance raise above moderate the SRO will be responsible for the management of the risk and any escalation.
109. All actions and decisions across the project will be logged and reported into the project group to ensure there is a clear auditable trail of the project.
110. There will be a number of milestones to report on throughout the project, an example of this would be the planning decision stage. A further milestone reporting will be undertaken pre-construction once the works team are ready to proceed.

Background papers

Cabinet paper 14 January 2026 ([Public Pack](#))[Agenda Document for Cabinet, 14/01/2026 10:15](#)

Appendices

- Appendix 1 – Financial projections
- Appendix 2 – Membership growth (restricted)
- Appendix 3 – Financial sensitivity analysis (restricted)
- Appendix 4 – Original business case
- Appendix 5 – Project risk assessment (restricted)
- Appendix 6 – Original Cabinet report
- Appendix 7 – Project Gantt Chart
- Appendix 8 – Build costs (restricted)
- Appendix 9 – Competitor Analysis (restricted)
- Appendix 10 – Outline benefits register