

THE DEVELOPMENT OF A NEW DISTRICT-WIDE INDOOR LEISURE CENTRE FACILITY, DOWNHAM ROAD, ELY

Committee: Corporate Governance and Finance Committee

Date: 29 January 2015

Author: Chief Executive

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1.0 ISSUE

1.1 Update on progress with implementation of the Committees decision in relation to the leisure centre facility (ref: 6 November 2014, Agenda Item No. 11).

2.0 RECOMMENDATIONS

2.1 Members are requested to:-

- (i) approve additional funding of £90,970 to facilitate the design and development of the leisure facility to RIBA Stage C;
- (ii) approve additional funding of up to £5,000 to procure specialist VAT advice;
- (iii) note the progress detailed in paragraph 3.3 and instruct officers to recommend a programme of prudential borrowing to Full Council as soon as practically possible.

3.0 BACKGROUND

3.1 The Committee agreed a series of recommendations to mitigate the identified risks in order to facilitate a prudential and robust funding strategy for the new district wide leisure centre (ref: 6 November 2014, Agenda Item No. 11).

3.2 This report updates members on progress with the implementation of these recommendations as detailed below in paragraph 3.3.

3.3 Progress Report

3.3.1 Recommendation 2.2 – Market testing exercise for the procurement of an operator

The Council have invited commercial leisure operators and management specialists to complete a market testing questionnaire seeking their views on revenue projections and income generation for the proposed new leisure centre development. The deadline for the receipt was 8 January 2015 and the appraisal of the range of income projections are attached as Appendix 3 (Exempt).

In summary,

- the Council received eight replies from ten invitations indicating a good level of interest from the market place;

- the initial feasibility study estimated that the Council should attract an average annual income of £277,000. None of the lower range of estimates met this target although six exceeded the target within their higher range estimates;
- a qualitative analysis of the responses indicate that there are a number of options which the Council should consider, specifically:-
 - length of contract offered – a number of operators indicated that an extension from ten years to 15-20 would be positive in terms of income received;
 - staging income payments – some operators indicated that they would wish to stage income payments to enable contractor to reflect that income generation may not reach maturity until Year 3 or 4;
 - whether the Council should take on any of the responsibilities related to equipment replacement, utility inflation risk and major plant upgrade, particularly if the Council extends the length of the contract.

3.3.2 Recommendation 2.3 – Funding from Sport England's Strategic facilities fund

The Principal Community and Leisure Services Officer has completed an expression of interest for the Strategic Facilities Fund and will be considered by the Lottery Board on 26 January 2015. A verbal update will be provided at the meeting.

3.3.3 Recommendation 2.4 – Preferred facility mix for the leisure centre.

The Commercial Services Committee on 12 November 2014 (ref: Agenda Item No. 6) resolved to approve Option 6 as the preferred facility mix for the new leisure facility. This decision has provided assurance and guidance for the capital and revenue assumptions within the business plan.

3.3.4 Recommendation 2.5 (Instruction to Asset Development Sub-Committee) – programme of additional capital receipts

The Asset Management Sub Committee on 8 December 2014 began to identify land development opportunities to meet the target set by Corporate Governance and Finance and Commercial Services Committees ie £2.5m. Appendix 1 (Exempt) provides a detailed breakdown of progress to date.

3.3.5 Recommendation 2.6 – CIL funding for the leisure facility

The Corporate Unit Manager has reviewed the amount of CIL funding that could potentially benefit the leisure centre. As at 8 December 2014, the Council held £300,345.07 in the Strategic CIL fund. In consultation with the Chief Executive and the Joint East Cambridgeshire and Cambridgeshire County Council Member and Officer Steering Group, a decision has been made to recommend to Full Council, on 8 January 2015, that the CIL Annual Delivery Plan 2014/15 is amended to provide a formal allocation of £250,000 to the leisure centre. This was agreed by Full Council on 8 January 2015, which allows Council to allocate £250,000 of CIL receipts for the project.

Preparation of the CIL Annual Delivery Plan 2015/16 is underway. It is currently proposed, following a recommendation from Planning Committee and subject to consultation with the Joint East Cambridgeshire and Cambridgeshire County Council Member and Officer Steering Group, that £2,500,000 of CIL funds raised from the North Ely development are formally allocated to the leisure centre. The Annual Delivery Plan 2015/16 will be an item on the agenda for Full Council in April 2015.

3.3.6 Recommendation 2.7 – Review of timing and certainty of capital funding assumption as detailed in the business plan for the procurement of the facility

Appendix 4 (Exempt part) (ref: Commercial Services, 12 November 2014) provided a review of confirmed and potential capital funding for the new facility. £2.274m was categorised as 'confirmed funding'. Appendix 2 (exempt) provides a detailed update on these funding sources.

- 3.4 The project team has also identified a further risk in relation to the capital costs of the project, specifically construction costs and the impact of delaying the timetable given current and projected levels of construction inflation. Officers have therefore, invited Sports Consultancy (under the SCAPE procurement framework) to submit a fee proposal to progress the project to RIBA Stage C. The SCAPE procurement framework enables local authorities to bypass their individual obligations under OJEU (given that SCAPE contractors and professional have already been subject to this process). A breakdown of their fee proposal is included in Appendix 4 (exempt) and offers a significant discount on the level of fees normally expected for Stage C work.

4.0 ARGUMENTS/CONCLUSIONS

- 4.1 This progress report informs the risk assessment and funding strategy for the new leisure facility. Since the November committee, there has been progress in quantifying and mitigating the high/medium risks inherent within the project. The approval of funding as recommended in paragraph 2.1 (ii), will provide further assurance on the capital costs of the project particularly, in relation to potential abnormal costs, ie ground conditions.
- 4.2 The Deputy Section 151 Officer, supported by the Council's treasury management advisors, is evaluating options for the programme of prudential borrowing, including the tenure of any potential loan finance and possible utilisation of the Council's cash reserves. In addition, the VAT issue is being considered to secure the best possible outcome for the Council. Members are requested to approve up to £5,000 to procure specialist VAT advice to inform the prudential borrowing strategy.

5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

- 5.1 The report to November's Committee provided a detailed financial and risk assessment, specifically:-
- prudential borrowing costs based on the preferred option (ie Option 6) of £451,317 per annum over 35 years;
 - capital funding gap of £2.505m in addition to the above (equivalent to a further £176,929 prudential borrowing);

- the funding of a 'bridging loan' until such time that the new leisure centre produces an income stream and the Paradise Pool is closed;
- robustness of the current assumptions in relation to 'confirmed funding', and external funding;
- capital and revenue cost/income risk in relation to construction and operator procurement.

5.2 The actions agreed in November were specifically designed to quantify and mitigate these risks and a further report will be produced for the next Committee meeting in March 2015. The additional expenditure recommended in paragraph 2.1(i) will be funded from the Leisure Centre earmarked reserve and 2015/16 New Homes Bonus.

5.3 Equality Impact Assessment not required at this stage.

6.0 APPENDICES

- 6.1 Appendix 1 – (Exempt) - Programme of land development opportunities (Update)
 Appendix 2 – (Exempt) - Statement of 'confirmed funding' (Update)
 Appendix 3 – (Exempt) - Summary of market testing questionnaire (Income projections)
 Appendix 4 – (Exempt) - Professional fee proposal (The Sports Consultancy)

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
Corporate Governance and Finance Committee 6 November 2014 (Agenda Item No. 11/Appendices (Exempt))	Room 103 The Grange Ely	John Hill Chief Executive (01353) 616271 E-mail: john.hill@eastcambs.gov.uk
Commercial Services Committee 12 November 2014 (Agenda Item No. 6 and 16 (Exempt))		