

Report of:	Head of Environment and Healthy Lifestyles
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Key Decision:	No
Report Track:	Cabinet: 25/01/18

CABINET

25 JANUARY 2018

**ADDITIONAL CAPITAL INVESTMENT IN CULTURE AND LEISURE SERVICES
AS PART OF THE COUNCIL'S FINANCIAL RECOVERY PLAN****1 Purpose of Report**

- 1.1 To outline the preferred capital investment option proposed by the Council's Culture and Leisure provider, Inspiring Healthy Lifestyles (IHL), in order to deliver the required level of savings identified by the Council in its 2017-18 Financial Recovery Plan (FRP).

2 Recommendations

- 2.1 That Cabinet consider and agree to the preferred capital investment option proposed by IHL in this report in order to deliver the minimum required level of savings of £50,000 per annum from 2019-20.
- 2.2 To delegate authority to the Head of Environment and Healthy Lifestyles in consultation with the Portfolio Leader for Culture and Sport to agree and facilitate all actions required to implement the preferred option.

3 Key Issues and Reasons for Recommendation

- 3.1 Cabinet at its meeting on 15 December 2016 proposed a series of saving options to deliver a balanced budget in 2019-20 in accordance with the £1.6 million saving requirement identified as part of the Financial Recovery Plan process.
- 3.2 Part of the FRP process included reviewing the existing contract for culture and leisure with the Council's provider, Inspiring Healthy Lifestyles, in order to deliver significant savings, circa £210,000 through a reduction in its management fee up to 2019-20.

- 3.3 Part of the management fee reduction, circa £70,000 per annum was identified by improvements to and streamlining of IHL's operational budgets. These savings were delivered in 2017-18 as proposed.
- 3.4 The balance of the savings to be achieved required IHL to develop their preferred capital investment proposal to deliver a minimum of £50,000 revenue savings by 2019-20 for the extended contract term.
- 3.5 Over the proposed extended contract period this equates to a savings target of £650,000.
- 3.6 IHL has focussed investment at Cannock Chase Leisure Centre and considered 4 possible options set out Section 5 of this report.
- 3.7 IHL's options appraisal informed by the initial capital cost assessments and business plan projections through to the end of the extended contract term taking into account operational expenditure and income alongside capital funding solutions has identified a clear preference for Option 2

Option 2 – Gym refurbishment, introduction of virtual fitness to the existing studio, conversion of the bowling green to an indoor cycling studio (Les Mills Trip), functional studio and multi-purpose studio. This also includes the provision of bowling mats to provide a programme within the sports hall. Capital cost estimated to be £521,891 and projected savings £902,987.

- 3.8 This option which creates a high quality and unique fitness experience delivers the savings required by the Council and the risk sits with IHL. IHL will be responsible for identifying any additional operational efficiencies to bridge any gap between the revenue impact of the project and the management fee reduction required by the Council.
- 3.9 There is a requirement for the Council is to act as a Guarantor for IHL in order to provide the capital funding solution to deliver this project, and for providing a Waiver; the implications of which are set out in the Legal Implications section of this report.

4 Relationship to Corporate Priorities

- 4.1 One of the key Council's aims and priorities seeks to increase access to physically active and healthy lifestyles as a way of contributing to improving health and wellbeing of all those who participate (better health outcomes). Any investment that encourages access and use of leisure and culture facilities will assist in contributing to increasing participation in physical activity.
- 4.2 Implementation of the Council's Financial Recovery Plan and delivery of the savings required is intended to minimise the impact on the delivery of the Council's corporate priorities.

5 Report Detail

- 5.1 Cabinet at its meeting on 15 December 2016 proposed a series of saving options to deliver a balanced budget in 2019-20 in accordance with the £1.6 million saving requirement identified as part of the Financial Recovery Plan process.
- 5.2 Part of the FRP process included reviewing the existing contract for culture and leisure with the Council's provider, Inspiring Healthy Lifestyles, in order to deliver significant savings, circa £210,000 up to 2019-20 through a reduction in its management fee.
- 5.3 Part of the management fee reduction, circa £70,000 p.a. was identified by improvements to and streamlining of IHL's operational budgets. These savings were delivered in 2017-18 as proposed.
- 5.4 The balance of the savings to be achieved required IHL to develop their preferred capital investment proposal to deliver a minimum of £50,000 revenue savings by 2019-20 for the extended contract term. Over the proposed extended contract period this equates to a savings target of £650,000.
- 5.5 IHL has focussed investment at Cannock Chase Leisure Centre and considered 4 possible options:-

Option 1 – Gym refurbishment, conversion of the sports hall store to an indoor cycling studio and the introduction of virtual fitness to the existing studio. Capital cost estimated to be £250,549 and projected savings £515,180.

Option 2 – Gym refurbishment, introduction of virtual fitness to the existing studio, conversion of the bowling green to an indoor cycling studio (Les Mills Trip), functional studio and multi-purpose studio. This also includes the provision of bowling mats to provide a programme within the sports hall. Capital cost estimated to be £521,891 and projected savings £902,987.

Option 3 - Gym refurbishment, conversion of the sports hall store to an indoor cycling studio and the introduction of virtual fitness to the existing studio and conversion of the bowling green to an adventure golf offer. Capital cost estimated to be £758,549 and projected savings £103,243.

Option 4 - Gym refurbishment, introduction of virtual fitness to the existing studio, conversion of the bowling green to an indoor cycling studio, functional studio and multi-purpose studio and conversion of half the sports hall to indoor climbing, play and catering offer. Capital cost estimated to be £2,367,317 and projected cost £1,809,375.

- 5.6 IHL's options appraisal informed by the initial capital cost assessments and business plan projections through to the end of the extended contract term taking into account operational expenditure and income alongside capital funding solutions has identified a clear preference for Option 2.

- 5.7 This option which creates a high quality and unique fitness experience is supported by business plan projections that demonstrate substantial savings over the contract term to contribute to the management fee reduction profile required by the Council.
- 5.8 The risk for delivering the savings sits with IHL and not the Council. IHL will be responsible for identifying any additional operational efficiencies to bridge any gap between the revenue impact of the project and the management fee reduction required by the Council.
- 5.9 The only requirement for the Council is to act as a Guarantor for IHL in order to provide the capital funding solution to deliver this project and the implications are set out in the Legal Implications section of this report.
- 5.10 Subject to agreement by Cabinet of IHL's preferred option they propose to fully implement the project by April 2019 with works during Quarter 2 of 2018-19.

6 Implications

6.1 Financial

- 6.1.1 The current budgets reflect the proposed savings identified within the report including the investment proposal reduction. IHL have currently guaranteed the £50,000 per annum with the risk of generating the income sitting with themselves. In order for IHL to obtain funding from their preferred funder they require the Council to be guarantor in the event of any default.

6.2 Legal

- 6.2.1 The Council has been asked to act as Guarantor for IHL in order for Alliance Leisure Services (ALS), IHL's preferred source of funding, to provide the capital funding solution.
- 6.2.2 The risk to the Council is likely to be minimal and liability will only fall to the Council in the event that IHL fail to comply with their obligations under the funding agreement and the agreement is terminated. Should IHL fail to comply, the Council would be given 6 months in which to make a decision on which of the following courses of action to take:
- a) To take over IHL's obligations and liabilities under the agreement, provided that the Council are able to retain any revenues received from the Leisure Centre, subject to the agreement of IHL; or
 - b) For the Council to arrange for an alternative service provider to replace IHL to take over the obligations with ALS's agreement; or
 - c) To terminate the agreement with ALS and pay any outstanding sums as a result of the termination.

6.2.3 In addition, the Council is also required to execute a Waiver Form in its capacity as landlord of the Leisure Centre as part of the agreement with ALS to act as Guarantor for IHL. The Waiver Form is a separate document whereby the Council agrees not to seize, sell or claim a right over any of the equipment that IHL will be hiring under their agreement with ALS and that the equipment shall not in any way constitute part of the Leisure Centre and shall remain separate. The equipment may be removed by ALS at any time from the Leisure Centre, provided that in doing so any damage to the Leisure Centre is made good. The Waiver Form also contains an undertaking to be given by the Council to ALS not to create a charge or encumbrance over the Leisure Centre without giving ALS prior written notice and not to sell, lease or dispose of the Leisure Centre without requiring the purchaser, lessee or dispose to grant a similar waiver to ALS.

6.2.4 Given the scale of the contractual relationship with IHL and the relatively small value of the capital funding that is being sought, the risk to the Council of being financially liable in the event of a breach by IHL would seem small under the circumstances. Added to this and by way of assurance to the Council, IHL have provided an extensive list of local authorities that have entered into similar agreements with other Trusts and ALS.

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

Many of the risks associated with this option relate to the provider, IHL being able to deliver the capital investment and level of savings required by the Council. However, IHL will be responsible for identifying any additional operational efficiencies to bridge any gap between the revenue impact of the project and the management fee reduction required by the Council. There is a risk for the Council in acting as Guarantor for IHL and their capital funding proposal but this is mitigated to some degree given IHLs track record of delivering such projects.

6.8 Equality & Diversity

None

6.9 Best Value

The partnership with IHL has already delivered significant savings and secured additional capital investment in its facilities. This option will deliver additional savings identified in the Council's FRP and continues to demonstrate the Council's commitment to providing value for money services.

7 Appendices to the Report

None.

Previous Consideration

None

Background Papers

15 December 2016 – Cabinet Report – Feedback from the Public Consultation on the Financial Recovery Plan and Approval of Saving Options