

(Informal Joint) Cabinet



Forest Heath
District Council

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| Title of Report: | Investing in our Leisure Provision in West Suffolk and Establishing a Long Term Strategic Partnership Approach and Reduced Management Fee with Abbeycroft Leisure | |
| Report No: | CAB/FH/16/049 | |
| Report No: | Cabinet | 1 November 2016 |
| | Council (Where applicable) | 21 December 2016 |
| Portfolio holder: | Councillor Andy Drummond Portfolio Holder for Leisure and Culture Tel: 01638 751411 Email: andy.drummond@forest-heath.gov.uk | |
| Lead officer: | Jill Korwin Corporate Director Tel: 01284 757252 Email: jill.korwin@westsuffolk.gov.uk | |
| Purpose of report: | To seek approval for recommendation to Cabinet of the creation of an investment fund for future leisure services improvement and to approve specific investment into Newmarket Leisure Centre. | |
| Recommendation: | <p>It is <u>RECOMMENDED</u> that Cabinet:</p> <p>(1) Recommends to Council the creation of a strategic investment fund of £5m across West Suffolk (£3.5m FHDC and £1.5m SEBC) funded from the strategic priorities and medium term financial strategy reserve, with delegated authority given to Cabinet (for sums of £500,000 or more) and delegation to the Portfolio Holder for Leisure and Culture in conjunction with a Director and the Head of Resources and Performance (for sums of less than £500,000) to draw down from this fund subject to satisfactory business case for each investment proposal for investment in the Council's leisure facilities;</p> <p>(2) Approves the development of a long-term leisure partnership agreement (supported by a business plan) for consideration at a future</p> | |

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| | <p>Cabinet meeting that must address:</p> <ul style="list-style-type: none"> ● The Principles of the Council’s Medium Term Financial Strategy and value for money considerations; ● The outcomes of the Promoting Physical Activity Framework; ● The planned utilisation of the investment (established in recommendation (1)) to achieve the reduction in the management fee payable by the Council to zero; ● The optimum duration of the agreement; ● The principles set out in Section 2.1 of Report No CAB/FH/16/049. <p>(3) Due to the urgency of initial funding requests, it is also recommended that Cabinet:</p> <p>(a) Approves an investment of £204,000 (ex VAT) into new equipment for the Newmarket Leisure Centre from the Council’s approved capital invest to save fund to deliver a £60,000 per annum management fee saving.</p> |
| <p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p> | <p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input checked="" type="checkbox"/></p> <p>No, it is not a Key Decision - <input type="checkbox"/></p> <p>(a) <i>A key decision means an executive decision which, pending any further guidance from the Secretary of State, is likely to:</i></p> <p>(ii) <i>result in any new expenditure, income or savings of more than £50,000 in relation to the Council’s revenue budget or capital programme.</i></p> |
| <p><i>The decisions made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is included on the Decisions Plan.</i></p> | |
| <p>Consultation:</p> | <ul style="list-style-type: none"> ● Full consultation with Abbeycroft Leisure to develop approach and ongoing work; SCC public Health re wider health outcomes. |
| <p>Alternative option(s):</p> | <ul style="list-style-type: none"> ● Do not support Abbeycroft with investment to support management fee reduction; explore other provider models. |
| <p>Implications: Abbeycroft fails to reduce its management fee requirements in an acceptable time or to an acceptable level.</p> | |

| <p>Are there any financial implications? If yes, please give details</p> | | <p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> As detailed in the report Invest to save proposal of maximum of £204,000 from current approved capital invest to save budget Creation of strategic capital investment facility of £3.5m funded from the Council's Strategic Priorities and Medium Term Financial Strategy Reserve | |
|---|--|--|--------------------------------|
| <p>Are there any staffing implications? If yes, please give details</p> | | <p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>Abbecroft to consider staffing implications as part of their business planning</p> | |
| <p>Are there any ICT implications? If yes, please give details</p> | | <p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>Abbecroft to consider ICT implications as part of their business planning</p> | |
| <p>Are there any legal and/or policy implications? If yes, please give details</p> | | <p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>The approach detailed in this paper will support the development of a new 10 year management agreement with Abbecroft Leisure and seek to align the maintenance responsibilities across the West Suffolk facilities</p> | |
| <p>Are there any equality implications? If yes, please give details</p> | | <p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> Access to sports and leisure opportunities must encourage those groups who traditionally find it more difficult to access leisure opportunities. This is detailed in Promoting Physical Activity Framework Abbecroft to consider equality implications as part of their business planning | |
| <p>Risk/opportunity assessment:</p> | | <p><i>(potential hazards or opportunities affecting corporate, service or project objectives)</i></p> | |
| Risk area | Inherent level of risk (before controls) | Controls | Residual risk (after controls) |
| | Low/Medium/ High* | | Low/Medium/ High* |
| Planned investment fails to deliver the savings predicted | MEDIUM | Business case provided for each investment proposal shows how return will be made | LOW |
| As a result of Business Rates revaluation the amount of business rates paid by Abbecroft Leisure may increase or decrease | MEDIUM | Continue to monitor the 2017 valuation outcomes and feed into 10 year management fee and business planning. | MEDIUM |

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| Competition impacts Market share impacting revenue meaning management fee savings not met | HIGH | Investment in facilities to ensure attractive and competitive | MEDIUM |
| Ward(s) affected: | | All Ward/s | |
| Background papers: <i>(all background papers are to be published on the website and a link included)</i> | | None | |
| Documents attached: | | Appendix 1: Repairs, maintenance and servicing liability leisure buildings excluding Abbeycroft responsibilities | |

1. Introduction

- 1.1 In July 2008, Forest Heath District Council transferred the operation of its leisure facilities to Anglia Community Leisure Trust. In 2013 Anglia Community Leisure actively commenced working in partnership with Abbeycroft Leisure, a Social Enterprise that delivered services for St Edmundsbury Borough Council. This decision was made in response to the changing dynamics of local government and mirrored changes being made by other stakeholders including Forest Heath District Council and St Edmundsbury Borough Council. This involved the trusts continuing to work independently but using the same resource. The trusts employed a joint chief executive.
- 1.2 In 2014 both trusts agreed to formally merge and the merged company became operational on the 1st April 2015. The first year saw the trust concentrating on stabilising operations and ensuring that the trust focused on establishing its operating model and developing its strategic plan. The trust now operates 12 facilities attracting in excess of 1.6 million visits and employs 450 staff.
- 1.3 The Trust has also engaged in a large number of national and local initiatives that has contributed to the council's objectives and encouraging local communities to be active. To name a few this included:
 - 1.3.1 Delivering the Keep Active initiative
 - 1.3.2 Annual Sports Awards – Celebrating local sporting achievements
 - 1.3.3 Stand Tall – An initiative using sport and physical activity to assist young people with anxiety and depression.
- 1.4 Forest Heath District Council lease the leisure centre buildings to Abbeycroft and the Council retains responsibility for forward planned maintenance, preventative and re-active maintenance. Appendix 1 shows the amount Forest Heath District Council has allocated for maintenance and servicing up to 2022, £2.7m. This excludes the investment for the Mildenhall Hub that will include a leisure centre to replace existing dated facilities in the town.
- 1.5 Forest Heath District Council has been clear that its ambition is to reduce the management fee for operating leisure centres to zero by 2025, maintaining payment only for sports' development and strategic leisure activities carried out on behalf of the Council and support for special events. The management fee paid to Abbeycroft in 2016/17 was £474,000
- 1.6 The Council and the Trust(s) have been working together for a number of years to reduce the management fee through initiatives such as Newmarket Gym Investment, The Gym Mildenhall and Legend Installation. The table below shows the management fee reductions achieved since 2009. Despite these reductions, Abbeycroft has maintained its market share and usage figures are included in the table.

Table 1: Actual Management Fee Payments 2009 - 2016

| Year | Management Fee payments by FHDC | Customer Numbers |
|--------------------------------|---------------------------------|--------------------|
| 2009/2010 | £1,044,823 | Data not available |
| 2010/2011 | £963,940 | 609,949 |
| 2011/2012 | £824,048 | 649,247 |
| 2012/2013 | £753,100 | 610,394 |
| 2013/2014 | £723,000 | 630,661 |
| 2014/2015 | £625,500 | 624,038 |
| 2015/2016 | £523,000 | 646,670 |
| 2016/2017 | £474,000 | |
| Total Saving from 2009 to 2017 | £570,823 | |

1.7 Previously the Council had approached savings on a mixture of 3 year or annual basis across West Suffolk. Now, as set out in the Council's own thinking around medium term planning we now need to bring our partners in line with a longer term strategic planning approach. In recognition of the continued financial challenges on the public sector and that the pressure in the longer term could be worsened with the uncertainty of local government finances, the council is striving towards achieving self-sufficiency so it is important that our partners seek to achieve their own financial resilience and self-sufficiency.

2. Establishing a long term strategic partnership approach and reduced management fee with Abbeycroft Leisure

2.1 Looking to the longer term where Abbeycroft will deliver leisure services for the Borough without the need for a management fee payment, the Council and Abbeycroft have been working together to:

- 2.1.1 Develop an outcomes based **Partnership Agreement** for the benefit of West Suffolk residents and businesses, having regard to West Suffolk's strategic leisure intentions;
- 2.1.2 Develop a Service Level Agreement for sports development work;
- 2.1.3 Achieve complete clarity re costs, fees and savings and third party agreements that are included in the management fee;
- 2.1.4 Agree a suitable period for the new lease and agreement , having regard to Abbeycroft's need to achieve length of tenure that unlocks funding;
- 2.1.5 Jointly develop a maintenance and investment plan and prioritise spend linking to West Suffolk's 6 year rolling plan and Abbeycroft 1 year maintenance plan that balances protecting the asset with customer service and user attraction and address the legacy latent defect issues.
- 2.1.6 Demonstrate value for money and a strong market offer.

- 2.2 In support of this, the Council has been reviewing its lease agreements and building management arrangements and costs and has been supporting Abbeycroft in strategic conversations to develop its wellbeing role. The Council has also supported Abbeycroft with opportunities to derive savings from energy initiatives, in particular electricity supply. Given the councils ownership on the sites however it is recognised that the property costs will still remain with the Council which is not unusual.
- 2.3 Abbeycroft are limited in their ability to review pricing structure as this is specified in the existing management agreement. Greater flexibility in concessionary pricing is sought by Abbeycroft and the principles from the Promoting Physical Activity Framework provide a clear framework in which this could be done. In developing the new Partnership Agreement, opportunities for greater flexibility will be explored.
- 2.4 Whilst the purpose of the negotiations with Abbeycroft are to reduce the management fee for leisure services to zero and to agree a long term plan, it must be recognized that there could be circumstances that should trigger for a review of the management fee reduction plan. Where there are significant changes to Abbeycroft's operating costs that are outside of their control such as a significant rise in utilities, pension costs or significant changes to business rates it is recommended that Abbeycroft will be able to request a review of the management fee. This will be explored in the development of the agreement.
- 2.5 Through this process Abbeycroft have agreed to
- 2.5.1 Provide an open book approach on return on investment to ensure transparency
 - 2.5.2 Share plan for reduction, showing profile of reductions up to 2022, and commitment to be zero by 2025
 - 2.5.3 Explore wider opportunities that meet the Trust's priorities
 - 2.5.4 Be clear how new business with other Councils or organisations could benefit the Management fee
- 2.6 The work to develop a new Partnership agreement will be completed in December 2016 with a further report to Cabinet. Longer term there is an opportunity for a further fundamental review of the Council's role in leisure provision, in particular having regard to its increasing importance in health and wellbeing. Some of the examples included in 1.3 have been funded by specific public health grants and as the landscape of public services changes the fiscal relationship between health and leisure can be further explored. Further work will also be needed to review the responsibilities for maintenance and the adequacy of the Council's provision in this regard.

3. Investing in our Leisure Facilities

- 3.1 The principle of capital investment to enable revenue return and/or generation of income is well established within West Suffolk, so as part of the negotiations, it was recognised that Abbeycroft could identify opportunities for capital investment in the Councils' facilities on an "Invest to Save basis" to enable a zero management fee to be achieved.

- 3.2 Abbeycroft has been undertaking a review of the leisure assets and market opportunities and has established that an Investment fund of around £5m across West Suffolk would act as one of the enablers to delivering a zero management fee in the medium to longer term. This investment fund would be available for schemes that would provide new capacity or upgraded facilities. It is therefore proposed that a £5m fund, funded from the Council's strategic priorities and medium term financial strategy reserve, (£3.5m FHDC and £1.5m SEBC), is created within the Council's capital programmes. Cabinet is asked to recommend to Full Council the creation of such a fund and more detail of the type of investments that would be applied for from that fund will be available for consideration by full Council on 20th December 2016. This fund is in addition to the funds required below.
- 3.3 Council is asked to delegate the commitment of spend from that fund to Cabinet (for applications of £500,000 or more) and to the Portfolio Holder for Leisure in conjunction with a Director and the Head of Resources and Performance (for applications of less than £500,000). Decisions on the specific investment proposals will be considered on:
- 3.3.1 The robustness of the detailed business cases submitted for each proposal
- 3.3.2 How the proposal support of the Council's priorities and the Promoting Physical Activity Framework.
- 3.4 It should be noted that should a proposal for a new leisure centre come forward this would be subject to separate business case and proposal outside of this investment fund.
- 3.5 This £5m (£3.5m FHDC and £1.5m SEBC) investment opportunity is in line with the internal rate of return within the Council's Medium Term Financial Strategy of 10% (as the management fee is planned to go to zero in return) and therefore meets the desired return when appraised on the basis of being funded by prudential borrowing. Actual borrowing will only take place when the Council's treasury management activities identify such a need e.g. the Council's cash flow management activities project that an external cash injection is required to maintain the appropriate level of cash balances for the Council to operate and fulfil its budget and service delivery requirements.
- 3.6 The Council currently manages funds in excess of this and therefore external borrowing is not expected during the life of this investment for this investment in isolation. The proposal is that the funding for this investment is financed from a strategic revenue reserve therefore it is proposed that the full revenue returns of this investment opportunity is realised to support the general fund budget. Full details of the investment and returns timings are expected by the end of December 2016 in line with the work set out in 2 above.

4. Immediate Invest to save opportunity: Newmarket Leisure Centre: Gymnasium Equipment

- 4.1 Abbeycroft is seeking the Council's financial support to upgrade its current gymnasium offer through redesign of the space to increase capacity and investment in upgraded cardiovascular fitness equipment.
- 4.2 This upgrade is essential to ensure that Newmarket Leisured Centre captures market share in advance of new facilities that are opening within the next 12-

18 months. Abbeycroft is seeking a capital investment of £204,000 from the Council and in return will guarantee a reduction in Management fee of £60,000 per annum from 2017/18 onwards. This represents a return on investment of 29.4%. This can be funded from the Council's Capital Invest to Save fund and meets the requirements of that fund given the level of return it will deliver.

5. How does this investment support our Promoting Physical Activity Framework?

5.1 The investment will enable Abbeycroft to develop its gymnasium with a variety of equipment which is part of the way this centre promotes physical activity. Specifically it will address the elements of the framework as show below:

5.1.1 **Social and community:** the leisure centre is a shared asset with Newmarket Academy

5.1.2 **Economic:** as shown above the investment meets the requirements of the Medium Term Financial Strategy

5.1.3 **Personal experience:** the range of facilities and activities on offer at the leisure centre are designed to provide opportunities for physical activity that are accessible, inclusive, welcoming, nurturing and convenient. The gym equipment will form part of that offer.

5.1.4 **Health and wellbeing:** this facility will encourage active people remain active and encourage more people to become active by offering good quality facilities in a convenient location.

6. Abbeycroft's investment in Forest Heath Facilities to-date

6.1 In considering these investment opportunities it is helpful to understand the track record Abbeycroft has in delivering an improved leisure offer. Abbeycroft have made investments into facility improvements over a number of years to ensure that the facilities remain in line with customer expectations, meet market demands and to assist in the reduction of the management fee. These are shown in the table below.

TABLE 2: Investments in Improvement to Abbeycroft Facilities

| Project | Amount | Investment Type |
|--|---------------|--|
| Newmarket Gym Investment | £15,000 | Abbeycroft Investment |
| The Gym Mildenhall | £100,000 | FHDC investment for management fee reduction |
| Mildenhall Swimming Pool | £12,500 | FHDC investment for management fee reduction |
| Brandon Leisure Centre Fitness Studio | £500,000 | FHDC investment for management fee reduction |
| Legend Installation (Customer Management System) | £30,000 | Abbeycroft Investment |

Appendix 1: Repairs, maintenance and servicing liability leisure buildings excluding Abbeycroft responsibilities

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---------------------------|----------------|----------------|------------------|----------------|----------------|----------------|
| Newmarket Leisure Centre | 171,500 | 23,500 | 21,500 | 22,500 | 21,500 | 23,500 |
| Mildenhall Swimming pool* | 11,800 | 22,800 | 1,961,800 | 11,800 | 31,800 | 11,800 |
| Newmarket George Lambton | 21,300 | 16,000 | 104,300 | 12,500 | 14,300 | 11,500 |
| Brandon Leisure Centre | 16,500 | 13,750 | 172,000 | 12,250 | 18,000 | 12,750 |
| TOTALS FHDC | 221,100 | 76,050 | 2,259,600 | 59,050 | 85,600 | 59,550 |

* Note Asset plan to close facility

Overall total £ 2,760,950