

Westland Leisure Complex

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Purpose of the Report

1. This report seeks approval for a 30 year £1,865,046 internal loan towards the costs of refurbishing the Westlands Sports and Leisure Complex in the event SSDC is able to negotiate and secure satisfactory terms with Finmeccanica – AgustaWestland (“AW”) and other funding partners to take over the management and future operation of the Complex.

Public Interest

2. The Complex has been a locally important and long standing venue regularly hosting a vast array of sporting activities and different events ranging from functions, conferences, meetings, training events, to weddings, ballroom dances, award ceremonies, festivals and live music events.
3. The Complex is wholly owned by AW, and has been traditionally operated as a proprietors club for the benefit of AW employees, their families and associate community members under a formal constitution. The Complex is situated centrally in Yeovil within a site of just over 12 acres in size, accessed off Westbourne Close. In recent years use by employees and their families has steadily reduced as the AW workforce has contracted, such that today the majority of use stems from community users.
4. On the 12th May AW announced their decision to close the Complex at the end of September 2015. The decision was taken due to increasing costs and the growing subsidy AW has had to make to keep the complex open. Other factors taken into consideration were the impending major investments that would be required to modernise the facilities and declining membership.
5. Recognising the value and importance of the Complex, SSDC and Yeovil Town Council (YTC) met with AW at the beginning of June to discuss its future. At the meeting all parties agreed to carry out a feasibility appraisal to assess the viability of SSDC or another organisation operating the site and continuing to provide a range of sport and leisure facilities for the overall benefit of the community.
6. The District Executive Committee considered the key findings emerging from this and further risk appraisal work at its September and October meetings, and in doing so has agreed subject to financial approval by Full Council to seek to negotiate and secure satisfactory terms with AW and other funding partners.
7. As the District Executive only has the delegated authority to approve capital spend of up to 5% of capital receipts the decision to approve the internal loan of £1,865,046 rests with full Council.
8. This report has been prepared to seek approval from full Council for this 30 year £1,865,046 internal loan towards the costs of refurbishing the Complex. Without approval from full Council, the Council will not be able to deliver the recommendations approved by the Executive.

9. **A number of Appendices for this report are exempt from disclosure or publication under category 3 of part 1 of Schedule 12(A) to the Local Government Act 1972 as amended by Section 1 of the Local Authorities (Access to Information) (Variation) Order 2006 as it may comprise the Council's ability to secure best value through the subsequent commercial negotiations, and some of the information is subject to a Non-Disclosure Agreement with AW.**

Recommendations

10. It is recommended that Full Council:

- 10.1. Note the report and supporting confidential appendices underpinning the considerations and decisions taken by the District Executive on 1st October 2015.
- 10.2. Approve a 30 year £1,865,046 Internal Loan at 2.96% interest for use towards refurbishment.

Background

11. At the District Executive meeting held on the 1st October 2015, Councillors considered the report summarising the key feasibility findings, further risk appraisal work and agreed:

- 11.1. To recommend that full Council approve a 30 year £1,865,046 Internal Loan at 2.96% interest for use towards refurbishment.
- 11.2. Subject to approval by Council of recommendation 11.1, authorise the Assistant Director (Health and Well-Being) in conjunction with Portfolio Holder (Leisure, Culture and Well-Being) to:
 - 11.2.1. Submit and negotiate the Statement of Principles set out in Appendix 1.6 with AW.
 - 11.2.2. Seek an annual financial contribution from YTC towards the revenue costs and seek additional financial support from the other adjacent Parish Councils.
- 11.3. Subject to approval by AW of the Statement of Principles authorise the Assistant Director (Health and Well-Being) in conjunction with the Assistant Director (Legal and Corporate Services), Assistant Director (Finance and Corporate Services) and Portfolio Holder (Leisure, Culture and Well-Being) and the Leader of Council to negotiate and finalise the Lease, Funding Agreement and Business Transfer Agreement.
- 11.4. Subject to agreeing terms of the Lease, Funding Agreement and Business Transfer Agreement with AW, and a Funding Agreement with YTC and other funding partners, pursuant to recommendations 11.2 and 11.3:
 - 11.4.1. Enter into an agreement with AW to take over the management and operation of the Complex for a 30 year term.
 - 11.4.2. Approve the use of up to £62,495 of general revenue balances to fund the revenue required to finance the operation of the facility, adding the requirement to the MTFP.

- 11.4.3. Approve the once-off use of up to £89,850 of general revenue balances that may be required to fund the Loan Repayments whilst the Facility Levy scheme is implemented during year 1.
- 11.4.4. Approve the once-off use of up to £60,000 of general revenue balances during the first year from handover to cover the net loss of revenue associated with the planned refurbishment works.
- 11.5. Subject to achievement of recommendation 11.1, authorise the Assistant Director (Health and Well-Being) in conjunction with Portfolio Holder (Leisure, Culture and Well-Being) to work with the clubs and individuals supporting the venue and petition to raise further funds towards the overall refurbishment and operating costs.
12. Details of the report and supporting confidential appendices presented to the Executive are set out in Appendix 1 as background to this report. A copy of the Financial Forecast for the sole operation of the Sports Facilities is set out in Confidential Appendix 2. A copy of the supporting slide presentation is attached in Appendix 3.
13. This report seeks approval from Full Council for a 30 year £1,865,046 Internal Loan at 2.96% interest for use towards refurbishment. It sets out the estimated capital spend, income, net cost to finance, finance options, internal loan repayment and risks of doing so.

Capital Spend

14. The estimated capital expenditure for the project amounts to £2,703,893.

Table 1: Refurbishment Cost Summary

Cost Summary	£
Sports Facilities, including new Pavilion.	931,912
Conference and Entertainment Complex	1,696,981
Project Management Fees	75,000
Total Estimated Refurbishment Cost	£2,703,893

15. The estimated capital finance available towards the costs of the refurbishment is expected that in the order of £838,847. These are outlined in Table 2 below.

Table 2: Income

Income	£
Banked Strategic Sports Hall Contributions	105,629
Unbanked Strategic Sports Hall Contributions	52,788
Banked Changing Room Contributions	180,695
Unbanked Changing Room Contributions	46,735
Sport England Improvement Fund Grant	400,000
Somerset Cricket Board Grant	35,000
Other Sport and Club Grants	18,000
Total Estimated Refurbishment Finance	£838,847

16. The net cost to finance amounts to £1,865,046.

17. It is recommended that SSDC use its own capital receipts to finance the loan repayable over 30 years in line with Public Works Loan Board (PWLB) rates. This ensures that the capital is returned over the period to finance other projects.

18. Table 3 below shows the annual repayment:-

Table 3: Capital Financing

Internal Loan for 30 years @2.96%	Revenue Cost of Capital (£)
Amount of Loan	£1,865,046
Interest Repayable @ 2.96%	£830,450
Total Amount To Pay Back	£2,695,496
Annual Revenue Repayment	£89,850

19. Table 4 shows what the impact on SSDC capital receipts would be:

Table 4: Impact on Capital Receipts

Impact	
Current Uncommitted Capital Receipts	£25,074,000
Allocation to WLC Project as a Loan	£1,865,046
Remaining Capital	£23,208,954
Annual Repayment to Capital	£62,168

20. The loan makes certain that interest of £27,682 and the capital repayment of £62,168 is repaid ensuring that there is no impact on other SSDC services. The interest payable is currently higher than we are receiving because of the loan's length.

21. The allocation of SSDC's capital resources to the project is very unlikely to have an adverse impact on the Council's ability to fund other schemes over the medium term.

22. Given that the cost of the annual £89,850 loan repayment can be financed through the introduction of a new £1 ticket levy scheme to all ticket sales at both the Octagon Theatre and the Westlands Leisure Complex, it is recommended that Full Council approve a 30 year £1,865,046 Internal Loan at 2.96% interest. This has the following benefits:

- 22.1. Interest is greater than short-term market rates.
- 22.2. Capital is repaid over time to fund other projects.
- 22.3. Capital is only drawn down when needed.
- 22.4. Makes SSDC's capital work for the community.
- 22.5. Provides repayment certainty for WLC management.

- 22.6. Reduces SSDC's exposure to current Treasury Market Risks.
- 22.7. The loan is unlikely to affect future capital spend as receipts are currently sufficient to fund the estimated future demand for the next 10 years.
- 22.8. Still provides the option to refinance at a future date.
23. On the downside the approach may restrict for future capital spend over the longer 30 year term, and future increases in interest rates may enable SSDC to secure a higher rate of return. Borrowing would hedge against increases in interest rates.

Internal Loan Repayment

24. The cost of the annual £89,850 loan repayment will be financed through the introduction of a new £1 Facility Levy Scheme to all ticket sales at both the Octagon Theatre and the Westlands Leisure Complex, such that those that use our entertainment facilities make a higher contribution towards the cost of their provision than the general council tax payer.

25. Table 5: Facility Levy Projections

Facility Levy Projections	Levy Charge Per Ticket Gross	Income Gross (£)	Income Net (£)
Based on Actual Octagon and Projected WLC Sales			
Octagon Ticket Sales – 121,000	£1.00	121,000	96,800
WLC Ticket Sales – 38,250	£1.00	38,250	30,600
Total:		159,250	127,400
Annual Repayment			89,850
Surplus			37,550

26. The surplus generated can be utilised to finance further capital requirements during the 30 year lease period.

Financial Implications

27. Currently £25,074,000 of capital remains uncommitted and based on the internal borrowing approach being used, this will reduce to £23,208,954. The capital will be replaced over 30 years and interest will be covered by the annual repayment of £89,850.
28. The users of the facility through the setting of a £1 levy on ticket sales would finance the annual loan repayment, so that it is those that use the entertainment facilities who make a higher contribution towards the cost of their provision rather than the general council tax payer.

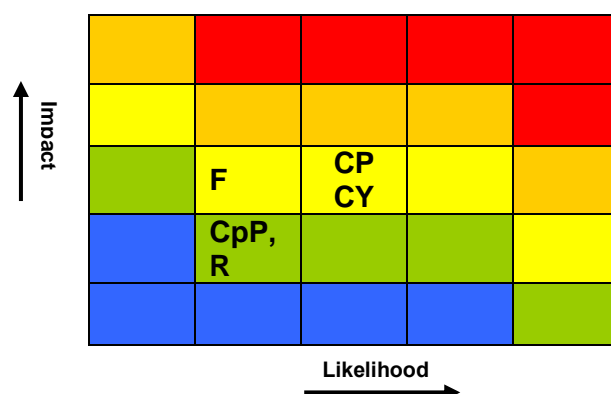
Risks

29. The key risks associated with the recommendation includes:
- The Landlord break clause provisions may enable the lease to be terminated at specific break points. This is subject to compensation clauses in order to protect SSDC's capital investment and SSDC would have the first option to acquire the site

in the event the Landlord seeks to dispose of the asset at a break point or at the end of the term. Further details are set out in Confidential Appendix 1.6.

- The capital spend estimate is indicative. The scheme is subject to further detailed design and tender processes.
- It is not guaranteed that unbanked S106 contributions capital income will be received.
- Facility Levy sums raised on ticket sales are estimated.

30. A risk log has been created for the potential project. The level of risk associated with implementing this next stage is summarised below in the Council's Risk Matrix.



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Corporate Priority Implications

31. The recommendation set out in this report is in accordance with Corporate Plan Focus Four - Health and Communities, setting out the Council's priority to maintain and enhance the South Somerset network of leisure and cultural facilities.

Carbon Emissions and Climate Change Implications

32. There are no additional carbon and climate change implications emerging from this report.

Equality and Diversity Implications

33. There are no additional equality and diversity implications merging from this report.

Background Papers

- Appendix 1 – District Executive Westland Leisure Complex Report (October 2015)

District Executive Westland Leisure Complex Report (October 2015) Confidential Appendices:

1.1 – M & E Report

1.2 – Refurbishment Cost Commentary

1.3 – Refurbishment Cost Summary and Breakdown Reports

1.4 – Facility Levy Scheme Projections

1.5 - Financial Forecast and Assumptions

1.6 – Statement of Principles – Proposed Operation of WLC

- Confidential Appendix 2 - Sports Facility – Financial Forecast
- Appendix 3 – District Executive Slide Presentation (October 2015)