

## Appendix 1

District Executive – 1<sup>st</sup> October 2015

### Westland Leisure Complex (Executive Decision)

<i>Executive Portfolio Holder:</i>	<i>Cllr Sylvia Seal, Leisure and Culture)</i>
<i>Strategic Director:</i>	<i>Vega Sturgess, Operations and Customer Focus</i>
<i>Assistant Director:</i>	<i>Steve Joel, Assistant Director – Health and Well-Being</i>
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### Purpose of the Report

1. This report has been prepared as part of the Council's work to give serious consideration to the refurbishment and operation of facilities at the Westlands Sports and Leisure Complex on a broadly similar basis to their current use. Its purpose is threefold:
  - 1.1. To present the key findings emerging from the completion of the surveys of the roof structure, the condition and remaining life of the electrical services installation and mains equipment, the condition and remaining life of the mechanical services installation that were sought by the District Executive at the meeting held on 3<sup>rd</sup> September 2015.
  - 1.2. To assess the financial implications of South Somerset District Council (SSDC) potentially entering into an agreement with Finmeccanica – AgustaWestland ("AW") to take over the management and operation of the Complex.
  - 1.3. To supply Councilors with sufficient information so that a decision can be taken.

### 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, 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. 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 the future of the Complex. 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 sports and leisure facilities for the overall benefit of the community.

6. At the District Executive meeting held on the 3<sup>rd</sup> September 2015, Councillors considered the report summarising the key findings and agreed:
  - 6.1. To give serious consideration to the refurbishment and operation of facilities at the Westland Sports and Leisure Complex on a broadly similar basis to their current use.
  - 6.2. That prior to considering the published recommendations 8.1 to 8.6, the Executive requires regular monitoring of the risk log by the project board, and in particular the following items:
    - 6.2.1. Roof structures.
    - 6.2.2. The condition and remaining life of the electrical services installation and mains equipment.
    - 6.2.3. The condition and remaining life of the mechanical services installation.
    - 6.2.4. A structural assessment of retaining walls around the site.
    - 6.2.5. Previous hire and bookings.
7. This report presents the key findings emerging from this survey work and provides updated financial implication information to provide Councillors with sufficient information to take the decisions regarding the potential refurbishment and operation of the complex.

**The 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**

8. It is recommended that the District Executive:
  - 8.1. Recommend to Council they approve a 30 year £1,865,046 Public Works Loans Board (PWLB) Equal Instalment Loan currently at 2.96% interest for use towards refurbishment, to be repaid through the introduction of a Facility Levy.
  - 8.2. Subject to approval by Council of recommendation 8.1, authorise the Assistant Director (Health and Well-Being) in conjunction with Portfolio Holder (Leisure and Culture) to:
    - 8.2.1. Submit and negotiate the Statement of Principles set out in Appendix 6 with AugustaWestland (AW).
    - 8.2.2. Seek an annual financial contribution from Yeovil Town Council (YTC) towards the revenue costs and seek additional financial support from the other adjacent Parish Councils.
  - 8.3. 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 and Culture) and the Leader of Council to negotiate and

finalise the Lease, Funding Agreement and Business Transfer Agreement.

8.4. 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 8.2 and 8.3:

8.4.1. Enter into an agreement with AW to take over the management and operation of the Complex for a 30 year term.

8.4.2. 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 Medium Term Financial Plan.

8.4.3. Approve the once-off use of £89,850 of general revenue balances that may be required to fund the PWLB Equal Instalment Loan repayments whilst the Facility Levy scheme is implemented during year 1.

8.4.4. Approve the once-off use of £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.

Subject to achievement of recommendation 8.1, 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 £2.628m estimated refurbishment effort.

## Background

9. 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 in centrally in Yeovil within a site of just over 12 acres in size, accessed off Westbourne Close.



10. The range of current leisure, entertainment, sport and recreation facilities available at the Complex is listed in **Table 1** below.

**Table 1: Current Complex Facilities**

Conference and Entertainment Complex	<p>Ballroom - standing capacity 1,800, theatre style (Flat floor) 900, cabaret style 330 – 500</p> <p>Costa Café Lounge / Bar - standing capacity 140, theatre style 40, cabaret style 70</p> <p>Family Lounge (Sportsmans Bar) - standing capacity 300, theatre style 40, cabaret style 50</p> <p>The Carling Lounge (Skittle Alley / Function Room) - standing capacity 300, theatre style 100, cabaret style 80 – 120</p> <p>Wessex Suite Meeting / Small Conference Room - standing capacity 200, theatre style 50, cabaret style 50 – 70</p> <p>Catering Kitchens</p> <p>Reception and Supporting Administration Offices</p>
Sports Facilities and Grounds	<p>Multi-Purpose 4 Court Sports Hall with spectator viewing gallery</p> <p>3 Squash Courts with spectator viewing gallery</p> <p>Cricket Pitch, Practice Nets (3), Pavilion</p> <p>Bowls Green, Pavilion</p> <p>Floodlit Tennis Courts (3), Pavilion</p> <p>Rifle and Pistol Range</p> <p>Table Tennis Room</p> <p>Snooker Room</p>
Recreation Facilities	<p>60 Allotments</p> <p>Model Engineering Track</p> <p>Yeovil Town Band Rehearsal and Storage Room</p>
Ancillary Areas	<p>Car Parking for 200 Vehicles</p> <p>Grounds Maintenance Equipment Store</p> <p>General Storage Compound</p> <p>Service Routes</p> <p>Public Path</p>

11. Up until 1<sup>st</sup> April 2013, the Complex was operated as a wholly owned subsidiary of AW. After that point the Complex was transferred to and managed by Sodexo, with the operating risks remaining with AW. Sodexo have operated the Complex through a core team of 12.5 permanent full time staff, assisted by a team of 10 FTE zero hours casual catering staff and 10 FTE zero hours casual bar staff.

12. Alongside the many competitive matches and training sessions delivered across the sports facilities by the 8 main sporting organisations based at the venue, in 2013-14 the Conference and Entertainment Complex hosted over 300 different events ranging from functions, meetings, training events, to weddings, ballroom dances, award ceremonies, festivals and live music events.
13. Operational costs including maintenance have been financed and subsidised by AW. Details of the operating costs and subsidy for the last 5 financial years are set out in the **Confidential Appendix 5**. The figures show the increasing costs and the growing subsidy AW has had to make to keep the complex open.

## Survey Findings

14. Surveys of the roof structure, the condition and remaining life of the electrical services installation and mains equipment, the condition and remaining life of the mechanical services installation were carried out by KirkhamBoard, the Councils Property Advisers, on 9<sup>th</sup> September 2015.

15. No 'showstoppers' have emerged through these assessments. The main findings are:

- 15.1. Roofs:

- 15.1.1. Main (pitched) roof over conference and entertainment complex

- 15.1.1.1. The detailed inspection of the main pitched roof using a cherry picker confirms the original asbestos cement sheet roof has been over clad with a new profiled aluminium roof (the original asbestos cement sheeting is in good condition and still in-situ). The new roof appears to be sound, with no major issues noted. The only issues identified are where a number of penetrations have been made through the roof for ventilation ducts and the like. The water tightness of such penetrations will be checked show members wish to proceed, and an allowance has been made to install deck tight flashings around the penetrations to mitigate any potential issues.

- 15.1.1.2. The main downpipes are of asbestos cement. All of the downpipes have damage and holes, and are ineffective. Allowances have been made to replace the downpipes with new uPVC downpipes.

- 15.1.2. Flat roofs over rear areas of social club (Toilets, Furniture Store, Kitchen, Skittle Alley and Wessex suite)

- 15.1.2.1. The single ply membrane covered flat roofs over the areas referred to above have reached the end of their useful life - allowances have been made to replace the roof coverings and some (not all) soft areas of the decking, as well as the perimeter flashings and some of the rain water goods.

- 15.1.3. Sports hall roof

- 15.1.3.1. The detailed inspection of the sports hall and squash centre roof identified sections with end lap corrosion and corroded fixings. An allowance has been made within the costings to treat the end lap

corrosion, replace corroded fixings, treat corroded gutters and re-paint areas of flaking coating.

15.2. Mechanical and electrical systems:

- 15.2.1. The mechanical and electrical services are compliant and working, but are now operating beyond their serviceable life.
- 15.2.2. The survey identifies the major plant items that need to be either repaired or replaced, and identifies the budget costs to be set aside for this work where the work has not featured as part of other previously planned refurbishment work.
- 15.2.3. Items identified have been split into 3 categories.
  - Category A items - Items requiring immediate action (Statutory requirement) such as emergency lighting, disabled alarms, fire alarms, gas safety valves and hot water vents.
  - Category B items - Actions that would be required within the next 12-36 months including main distribution power labelling, boiler expansion valves and cold water pipe replacement.
  - Category C items - Actions within the next 36-60 months which includes some replacement of heating boilers, and main ventilation systems within the ballroom wall and roof.
- 15.2.4. As a general rule it tends to be more cost effective to replace these types of systems as a whole system on a planned basis rather than wait for breakdowns or adopt a piecemeal future maintenance work approach. As such within the cost report, we have included all items in the A, B, and C categories. A copy of the full M & E report is attached in **Confidential Appendix 1**.

15.3. Retaining wall structures:

- 15.3.1. The structural assessment of the various retaining wall structures around the site found that all walls apart from the one previously identified wall to the corner of the Wessex Suite to be sound. A cost provision to demolish this retaining wall, and to supply and lay a replacement retaining wall is included within the costings.

## **Feasibility Findings**

16. The Complex still has the potential to be a vibrant Entertainment, Function and Conferencing Complex and successful Sport Hub, however, the facilities require extensive modernization and refurbishment.

17. The evidence from the petition, submitted with support from over 8,000 residents (making it the largest petition submitted to SSDC) and the local reaction to the closure announcement indicates that residents wish to see the facility being saved and being retained as a versatile facility, highlighting its unique ability to accommodate large live events, functions, conferences, ceremonies and merit as a community, sporting and business facility.

## **Sports Facilities**

18. In sporting terms the Complex:

- 18.1. Is a very important sporting hub for Yeovil and Somerset, hosting eight sport clubs with a collective membership of over 500 people who regularly use the facility week in week out.
- 18.2. Hosts the only sports hall in South Somerset available during the daytime, the only cricket pitch in Yeovil, and the only community rifle range in the district.
- 18.3. Benefits from good peak period and seasonal usage, although it has suffered from low off peak use, offering good scope for better programming and use going forward.
- 18.4. Provides an opportunity to introduce 'added value' membership schemes linked with our other public facilities to provide a much enhanced offer for our residents.

19. Strategically there is a need to protect key strategic community sports facilities given current deficiencies. Before consideration of the potential loss of the facilities, our facility assessments for the catchment served by the Complex show that there are already extensive shortfalls in community hall provision (currently amounting to 490 sqm), indoor sports hall provision (a shortfall of 12 badminton courts in 2026, building from a shortfall of 4 courts in 2012 and 9 courts in 2022), indoor tennis court provision, and in outdoor cricket pitch space.

20. Representations to save the facility have been received from each of the sections using the site, the English Cricket Board and Badminton England, and Sport England.

21. It is important to recognize that the current outdoor tennis court area has scope to accommodate additional new sport and recreation facilities, thereby providing a platform to address strategic sport deficiencies without the need for land acquisition in future. Strategically this would be very valuable given the recreational land constraints in Yeovil.

## **Conference and Entertainment Complex**

22. The Conference and Entertainment Complex hosted over 300 different events in 2014/15 ranging from functions, meetings and training events, to weddings, ballroom dances, award ceremonies, festivals and live music events.

23. It is the largest and most versatile venue across the district, with a capability to host:

- Live Music (up to 1800 standing)
- Live Comedy (up to 1000 seats)
- Live Events (650 – 1000 seats)
- Ballroom Dances
- Conferences, Functions, and Training Events
- Balls, Awards Ceremonies and Charitable Events
- Council Meetings and Election Counts
- Parties
- Exhibitions and Fairs
- Weddings
- Regular Community Activities
- Civil Contingency Provisions

24. The analysis of use indicates:

24.1. By sector, the highest level of hires come from the private sector (58%), with 34% coming from community organisations, and 8% from the public sector.

24.2. By space, nearly half of all hires are for the main ballroom (48%), followed by Costa Lounge (27%), Carling Suite (23%), Wessex Suite (4%), and Skittle Alley (4%).

24.3. By booking type, the majority of all bookings are for meetings, training events and conferences (40%), followed by ballroom dance (25%), community activities (17%), music events (8%), live performance (3%), parties (3%), comedy events (2%), exhibitions and fairs (1%), weddings (0.5%), and charitable balls / award ceremonies (0.5%).

25. In reviewing the type and scale of the ballroom bookings, it does indicate that the majority would be unable to be accommodated in the same form within South Somerset should the venue close. As such strategically we are of the view that there is a need and considerable value to retaining a large and versatile conferencing and entertainment complex capability within the district's key economic centre going forward.

26. In terms of live music, comedy and performance bookings, our market analysis for these sectors across a 45 minute drive-time catchment indicates that the annual ticket sale capacity for the area is in the order of 282,863.

27. Taking into account the lack of competition from other venues - (Weymouth - 993 seats, Merlin (Frome - 241 seats), Memorial Theatre (Frome - 536 seats), Salisbury Playhouse (517 seats) and Strode (393 seats) – the Octagon Theatre market share (43% - 121,000 per annum), and the increasing number of performances now selling out, we are of the view that with effective management and modernisation, the facility has the ability to both continue to support the range of bookings whilst also becoming a successful destination venue that contributes to attracting visitors and audiences to Yeovil. Importantly given the nature and strengths of the WLC, the focus would be on the presentation of live music, supported by a range of other comedy and live performance work that the Council is unable to attract to the Octagon due to both its seat numbers and theatre configuration.

28. Strategically we cannot foresee that the market will bring forward a replacement facility with such an extensive capability in South Somerset. As such if we are to retain a large and versatile conferencing and entertainment complex capability within the district's key economic centre going forward, then it will only be realised through the leadership of SSDC alongside financial support from YTC and other adjacent Parish Councils to secure this valuable asset for the benefit of the communities we serve. With the knowledge of the financial implications of refurbishing, and operating the facility set out later on in this report, this is perhaps key the decision for members.

29. Such a step accords well strategically with the Council's Corporate Plan aspiration "To maintain and enhance the South Somerset network of leisure and cultural facilities". In replacement terms, our analysis indicates that the cost of replacing both the sports facilities and the conference and entertainment facilities would be in the order of £11,474,863. This excludes any costs associated with land acquisition, VAT or inflation beyond 2015. The breakdown is:



- Conference and Entertainment Complex - £7,541,370
- Sports Hall - £2,620,000
- Squash Courts - £473,494
- Cricket Pitch / Practice Nets - £275,000
- Rifle Range - £175,000
- Bowls Green - £115,000
- Pavilion - £275,000

30. In comparison, financially the option to take over and refurbish the facilities based on the proposals within this report offer both high public value and good value for money.

## **Refurbishment**

31. A key factor contributing to the AW decision to close the facility was the impending major investments that would be required to modernise the facilities.

32. The various facilities at the site vary in age, with most of the being in the region of 40 years old. Age combined with a historical lack of maintenance and renewal works mean the facilities are extremely tired and require extensive refurbishment.

33. KirkhamBoard have assessed the condition of the facilities, considered the scope of refurbishments required to support the delivery of the proposed business plan and prepared an indicative cost plan for the works.

34. In broad terms the modernisation programme, subject to further detailed design, would comprise a refit of the:

34.1. Main ballroom - to incorporate automated retractable seating to capable of accommodating up to 1000 people with good viewing lines, new stage fit, new sound system, new lighting system, new air handling system, fire alarms, flooring, and redecoration.

34.2. Function and meeting rooms - including flexible room dividers, new ceilings, new flooring, desks, chairs, AV / wifi equipment, lighting, air handling and redecoration.

34.3. Bars – enabling the creation of a more flexible bar space, with room dividers, new ceilings, new flooring, tables, bar fit, chairs, AV / wifi equipment, lighting, air handling and redecoration.

34.4. Reception, toilets, administrative and other ancillary areas, including new access and CCTV control systems.

34.5. Sports hall and squash courts – including new flooring, LED lighting, air handling, storage, sports equipment, lift, redecoration and changing room refit.

34.6. New pavilion - with team changing rooms, official changing room, small kitchenette, bar and club area, adjacent to the cricket pitch and bowls green.

35. No changes are planned to the allotments, model engineering track, outdoor tennis courts, rifle and pistol range or car parking areas at this stage. However, rifle and pistol range provision is expected to feature as part of a planned SE Improvement Fund application once an appropriate scheme is developed.

36. The future of the outdoor tennis court provision would be considered as part of a future exercise in conjunction with the Lawn Tennis Association to assess the feasibility of developing indoor tennis provision, alongside additional fitness provision at the site.
37. Costs of the proposed refurbishments incorporating costs emerging from the additional survey works are estimated to be in the order of **£2,703,893**. A summary is set out in **Table 2** below and a detailed breakdown of the scope of works, all costs and assumptions is available within the Refurbishment Cost Plan Report in **Confidential Appendix 2 and 3**.
38. At this stage it should be noted that costs should be used to provide an indicative budget cost framework within which further design development and project risk analysis can be undertaken, as no detailed design works have been undertaken.
39. The total estimated figures refurbishment costs includes a provision for contingency which amounts to £125,185.

**Table 2: Refurbishment Cost Summary**

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

### **Refurbishment Financing**

40. No grants or Section 106 contributions are known to be available towards the costs associated with the refurbishment of the Conference and Entertainment Complex, however, it is expected that in the order of £838,847 would be available to support the refurbishment of the sports facilities. Further offers of financial support have been received in-principle across a number of the sporting organisations since the previous Executive meeting and it is expected that further contributions will be forthcoming should the project proceed. These are outlined in **Table 3** below.

**Table 3: Sports Facility Refurbishment Grant and Section 106 Finance Estimate**

<b>Income</b>	<b>£</b>
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
<b>Total Estimated Refurbishment Finance</b>	<b>£838,847</b>

41. As members can see this would leave the Council needing to finance a shortfall of £1,865,046 in order to revitalise the facility and complete the necessary works. This sum has increased by £106,434 as a result of the additional work.

42. There are two options available to the Council to finance this shortfall. The options together with their costs are summarised in **Table 4** below:

43. **Table 4: Capital Finance Options / Revenue Cost of Capital**

Option	Revenue Cost of Capital (£)
<b>1. Use SSDC Capital</b>	£1,865,046
Annual Revenue costs of loss of interest @ 3.02%	£56,324
<b>2. Finance through PWLB Equal Instalment Loan over 30 Year Term @ 2.96%</b>	£1,865,046
Interest Repayable @ 2.96%	£830,450
Total Amount To Pay Back	£2,695,496
Annual Revenue Repayment	£89,849.87

44. In order to finance the annual loss of interest or annual loan repayment costs, it is proposed to introduce a nominal £1 facility levy 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.

45. Calculations indicate that annual ticket sale projections of 135,000 would generate in the order of £135K gross, £108K net of VAT. The sums generated would cover the annual loss of interest or annual loan repayment, with the remaining monies placed into a reserve to support future venue enhancements and renewals across both venues. Further facility levy projection illustrations are set out in **Confidential Appendix 4**.

46. As the allocation of SSDC's own capital resources to the refurbishment would have an impact on the Council's ability to fund other schemes, and there is an ability through the Facility Levy to meet the cost of annual loan repayments across the term, it is recommended that members finance the refurbishment works through the PWLB Equal Instalment Loan route.

47. This would be the most prudent long-term approach to the SSDC, enabling it to utilise its capital for other schemes going forward. An increasingly important factor for the Council in order to ensure it is well placed in the long-term to assist member's aspirations to support their communities and transform service delivery.

48. In planning to finance the annual loan repayment through the proposed facility levy scheme, members should note that as current performances are generally contracted 9-12 months in advance, there would be an initial timing gap between the start of the loan and receipt of the first facility levy contributions. It is therefore recommended that members approve the once-off use of £86,237 of general revenue balances that may be required to fund the PWLB Equal Instalment Loan repayments whilst the Facility Levy scheme is implemented during year 1.

49. Members should note that there is a risk to the refurbishment financing at present as no application has been submitted to the Sport England Improvement Fund. The next grant submission window for this fund is expected to open at the end of September 2015.

Sport England have expressed their desire to safeguard the facilities at the Complex and have encouraged SSDC to make an application. Subject to DX approval of the proposal, and the prior approval of AW, SSDC will work to submit a Stage 1 Expression of Interest Application to the Sport England Improvement Fund to support the refurbishment of sports facilities at the Complex.

50. Finally given the scale of support for the petition to save the facility, if members are minded to enter into an agreement with AW to take over the management and operation of the Complex, then it is recommended that SSDC seeks to work with the various sections, those leading the petition and the local media as part of the overall effort to raise further funds through encouraging individual donations to save and revitalise this much valued facility.

## **Operating Costs**

51. In order to understand the financial implications associated with operating the Complex, SSDC has prepared an initial business plan setting out the income and expenditure projections associated with the potential programme and activity areas for the first full operating year post refurbishment.

52. In doing so it enables SSDC to determine whether operating the Complex would be affordable to the Council's medium term financial plan. The forecast has been prepared based on the following:

- Examination of the audited accounts for the period when the facility was operated as a subsidiary of AW covering 2010-11, 2011-12 and 2012-13.
- Examination of the annual contracts account figures submitted by Sodexo for 2013-14, and 2014-15.
- Examination of the operating information supplied by AW as part of the feasibility exercise.
- SSDC's experience of operating the Octagon Theatre and developing business plans for other similar sporting facilities.
- The facility being operated as a 'sister venue' to the Octagon Theatre, managed by SSDC. This approach:
  - a. Reduces operating costs through leveraging our existing box office, marketing, bar and refreshment, technical, operation and programming capabilities.
  - b. Ensures programming and marketing of both venues complement, rather compete with each other.
  - c. Delivers greater purchasing power.
  - d. Provides greater operational and venue resilience.
  - e. Reduces the time to build the staffing team central to operating WLC successfully from handover, and enables us to build upon our existing voluntary strengths in this area.

Members should note that there will be a need to appropriately apportion shared operational costs across budgets for the Octagon Theatre and

WLC should a decision to proceed with the refurbishment and operation of WLC be taken.

53. Based on this work, the revenue subsidy before consideration of other financial contributions, in the first full operating year post refurbishment is estimated to be in the order of £132,495.

**Table 4: Operating Cost / Revenue Subsidy**

<b>Financial Projection</b>	<b>(£)</b>
Income	£1,155,701
Expenditure	£1,288,196
Profit / (Loss) before Subsidy	(£132,495)
Partner Financial Contributions	£70,000
<b>SSDC Subsidy</b>	<b>£62,495</b>

54. Full details of the financial forecast are attached in **Confidential Appendix 3**. Details of the supporting assumptions underpinning the forecast are set out in **Confidential Appendix 4**.
55. In itself the first full operating year post refurbishment cost is significant at a time where SSDC alongside other local authorities need to respond to severe cuts in Government funding.
56. The consequence of this and the underlying expectation that local government finance is unlikely to improve in the medium term, means that it would only be prudent for SSDC to consider taking over the management and operation of the Complex and saving the facility for the overall benefit of the community if AW, YTC and other adjacent Parish Councils are prepared to make a long-term financial contribution to do so.
57. The indications are that, subject to proper consideration through their respective decision making processes and SSDC accepting the operating risks and capital financing responsibilities, that AW, YTC and other adjacent Parish Councils maybe prepared to make a financial contribution to save the facility. It is recommended that members formally seek annual financial support from YTC and the other adjacent Parish Councils.
58. Assuming these financial contributions from partners are met, the level of subsidy required from the Council would be expected to reduce by in the order of £70,000 per annum. This would represent an additional cost of £62,495 per annum for the first full operating year post completion of works. This would add £62,495 to the MTFP for 2016/17 and beyond as a commitment.
59. Similar to other venues that have gone through a period of prolonged closure and refurbishment, the first full operating year post completion of works is normally the most challenging. There are consequential revenue losses stemming from the cancelation of membership subscriptions, customers moving to alternative facilities, and the longer lead in timeframes often associated with bookings which can make it more difficult to secure bookings and attract artists. As such, the financial performance of the operation is expected to improve gradually in future years, as we witnessed at the Octagon in recent years.

60. It should be noted that it is anticipated that there will be a once-off requirement for £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. This figure assumes the Council undertakes and completes both the detailed design work and prepares the supporting tender packages at risk whilst the proposal is determined by AW.

### **Proposed Statement of Principles**

61. Throughout the discussions with AW during the feasibility exercise, both parties have negotiated and prepared in good faith a 'Statement of Principles' that would form the basis of any future Lease, Funding Agreement and Business Transfer Agreement between the parties in the event that SSDC resolves to take over the responsibility for the complex and its operation on a broadly similar basis to its current use.

62. Details of the proposed Statement of Principles are set out in **Confidential Appendix 6**.

63. Members are asked to consider the terms contained within the document, and highlight any changes they may wish to submit and negotiate with AW should they decide to proceed.

### **AW Approval**

64. Members are asked to note that on receipt of confirmation that SSDC wish to proceed, any proposal will be subject to satisfactory progress through the following 4 stage AW decision/approval process.

- 64.1. AW Project Team / Lead Director review and approval.
- 64.2. AW Board for review and approval.
- 64.3. AW Executive Steering Committee for review and approval.
- 64.4. Finmeccanica CEO for review and final sign off.

65. Only once the proposal is signed off by the Finmeccanica CEO, will AW be able to instruct their solicitors to finalise the Lease, Funding and Business Transfer Agreements with SSDC.

66. Taking account of this and our own respective decision making processes, it is expected after allowing time for the necessary legal work that occupation may commence at the earliest around the beginning of February 2016.

### **VAT Advice**

67. Advice on the VAT implications of the proposal have been sought from LAVAT Consulting Limited to ensure SSDC accounts correctly for the associated VAT implications.

68. The advice has confirmed that the Council must structure the various hire, ticket sale, membership, and pay and play activities so that in VAT terms they are deemed to be standard rated. Consequently the Council will be able to recover all VAT associated with the cost of the refurbishment without putting the Council at risk of breaching its partial exemption threshold.

69. In moving this forward the Council will need to pay particular attention to ensuring that the arrangements associated with the occupation of land by for example the cricket,

bowls and rifle clubs are not treated as an exempt lease or licence to occupy land. The cost to the Council if its exempt input tax were to be within the exemption threshold would be £85K plus per annum. The various hire and use agreement arrangements will be structured to mitigate this risk.

## Financial Implications

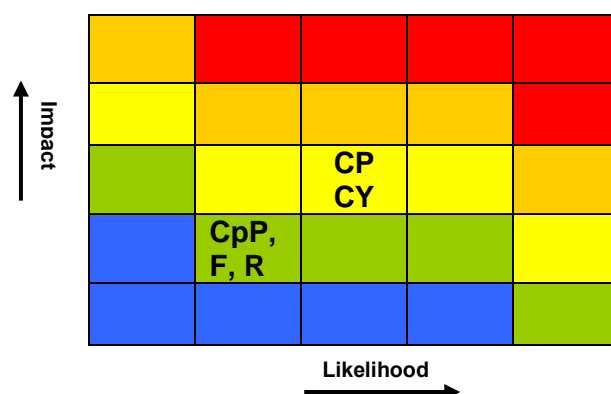
70. South Somerset District Council can take advantage of the certainty rate which gives a 0.2% reduction on the cost of borrowing. The current rate of borrowing for 30 years using the Equal Installment Payment rate is 3.16% but with the 0.2% reduction equates to 2.96%. It is important to note that the rate applied to the loan will be the rate at the date the loan agreement is made.
71. The overall repayment would be £2,695,496 which would consist of £1,865,046 principal repaid and £830,450 for total interest repaid. Based on a rate of 2.96%, the annual repayment would be in the region of £89,850 split between principal and interest payable.
72. Currently £25,074,000 of capital remains uncommitted and if capital receipts are used, this will reduce to £23,208,954. The loss of interest will be £56,324 per annum which would need to be added to the MTFP. Regardless of which funding option is chosen, an additional cost of £62,495 will be required per annum. This assumes financial contributions from partners will be met. This would add £62,495 to the MTFP for 2017/18 and beyond as a commitment. The costs for 2015/16 will be funded from non-earmarked balances. Non-Earmarked Balances currently stand at £5,374,000 and if members approve the recommendations, they will reduce to £5,161,655. The latest review of risks to SSDC balances shows that balances need to remain within the range of £3.4 to £3.8 million to meet current financial risks. Current balances as at 30th June are therefore adequate to meet current risks
73. To summarise the MTFP implications, if capital receipts are utilised, £118,819 per annum would need to be added to the MTFP including loss of interest of £56,324 per annum and additional costs of £62,495. If borrowing is utilised, £152,345 would need to be added to the MTFP including repayment of principal and interest of £89,850 and additional costs of £62,495. It is anticipated that the users of the facility through the setting of a £1 levy on ticket sales would finance the annual loss of interest or 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.
74. There are a number of financial risks to the project:
  - The refurbishment costs are indicative and have not yet been finalized. The scheme would be subject to further detailed design and tender processes.
  - It is not guaranteed that unbanked S106 contributions will be received.
  - The levy raised on ticket sales are estimated.
  - The rate applied to the loan is subject to change as the rate applied will be the rate at the date the loan agreement is made.

## Risks

75. The key risks at this stage are:

- 75.1. Delays associated with Full Council or AW decision making process.
- 75.2. Handover date.
- 75.3. Accuracy of supplied information.
- 75.4. Contractor availability.
- 75.5. Extent of revenue impact stemming from prolonged closure.
- 75.6. Extent of revenue impact associated with the phased refurbishment.
- 75.7. Artist ticket sale income during the first post refurbishment year.
- 75.8. Facility levy receipts.
- 75.9. Premises age.
- 75.10. External grant funding.
- 75.11. Pavilion planning approval.
- 75.12. Internal project management resource.
- 75.13. Inflationary pressures.
- 75.14. Site abnormalities.
- 75.15. Reputation.

76. 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**

77. The potential decision to take over the management and operation of the Westlands Sport and Leisure Complex is in accordance with Corporate Plan Focus Four - Health and Communities, where SSDC set out its priority to maintain and enhance the South Somerset network of leisure and cultural facilities.

**Carbon Emissions and Climate Change Implications**

78. The refurbishment proposals set out in this report will result in significant reductions to the current level of carbon emissions from the Complex. This will result in the main from



the planned room divisions, air handling, stage, lighting, sound equipment and rain harvesting installation proposals. As part of the detail design process that would be associated with the next stage of development of the project further consideration will be given to the environmental credentials of the modernisation programme, ensuring the refurbishment works accord with current good practice.

### **Equality and Diversity Implications**

79. The recommendations contained within this report will enhance access by all members of our communities. The proposed refurbishments will enable the facilities to become DDA compliant.

80. Should members wish to proceed, SSSC will consult with the Equalities Steering Group as part of the detailed design and operating planning processes.

### **Background Papers**

Confidential Appendices 1 - 6