

TITLE: PRUDENTIAL BORROWING

TO/ON: CABINET 25th January 2006

**BY: HEAD OF FINANCIAL SERVICES AND
HEAD OF COMMUNITY & PARTNERSHIPS**

**PORTFOLIO HOLDERS: CABINET MEMBER FOR CUSTOMER SERVICES AND
CABINET MEMBER FOR FINANCE AND RISK
MANAGEMENT**

STATUS: FOR PUBLICATION

1. Purpose of Report

- 1.1 The Purpose of this report is to further consider the proposals to facilitate a partnership approach to the delivery of a purpose built Lifestyle Centre extension on the site of Haslingden Sports Centre.

2 Recommendations

Recommendation 1

That Members support proposals to develop facilities at Haslingden Sports Centre as set out within the Trust transfer documentation as contained within the Partnership Delivery Plan agreed May 2004 and through the adoption of the Trusts three year business plan as agreed by Rossendale Borough Council on November 2004.

Recommendation 2

That Cabinet recommends to Council Borrowing under Prudential code or by way of guarantee, to a maximum of £1.2 million, in support of the redevelopment scheme, with the detailed contractual issues around this being delegated to the head of financial services and head of Legal and Democratic Services in consultation with the Leader of the Council and

Portfolio holder for Finance and Risk Management.

- 2.3 That financial servicing of the prudential code borrowing will be met through a corresponding reduction in the Trusts support grant over the full term of the loan period.

3. Report and Reasons for the timetable for implementation

- 3.1 On 1st June 2004 the Borough Council created Rossendale Leisure Trust as a non profit distributing company, to manage five of its leisure facilities along with Sport and Arts Development and Healthy Communities. The agreement between the Trust and the Borough Council maintains that the Trust are responsible for operational management, over a twenty five year term, whilst the assets and liabilities of the building stock remain the responsibility of Rossendale Borough Council.
- 3.2 The Trust was set up in this way to ensure that all surpluses created through its operations are reinvested within the Leisure provision managed by The Trust. Thus through effective management, substantial improvements can be made in service delivery without continuous revenue demands upon the Boroughs own budgets.
- 3.3 The Trust grant was structured in such a way that it received operational budgets only, for the delivery of the services, less a efficiency savings of £50K. The Office of the Deputy Prime minister is now using this cashable saving to Rossendale Borough Council as an example of good practice under the Gershon measures for Borough Councils in the UK
- 3.3 As part of the transfer process a stock condition survey was commissioned which highlighted a potential £1.8m maintenance liability to the transferred stock.
- 3.4 The Borough and the Trust prepared a Partnership Delivery Plan which highlighted the steps the Trust would need to take in order to create financial stability for the organisation in the long term against a back drop for the need for substantial investment in the buildings themselves.
- 3.5 A core element of the Partnership Delivery Plan include an investment at Haslingden Sports Centre to create a modern health and fitness facility capable of generating sufficient surplus revenue to assist The Trust gain financial stability in the long term. This would also overcome some of the issues

outlined in the Stock Condition Survey and provide surplus revenues for investment in services in areas of the Borough with higher deprivation levels and high social need.

3.6 The nature of Sport and Physical Activity has changed significantly over the past twenty years. Health and fitness has been increasingly used to support public sector leisure provision. The area has seen significant growth over the past ten years with Mori and the Fitness industry Association state of the industry report (2004) predicting continuous growth for the foreseeable future. The public sector is also predicted to take greater market share due to the known disposition of many people to prefer high quality facilities provided at Local Sports Centres

3.7 This growth in physical activity is set to increase further through a number of government initiatives relating to three key areas. These include:

- The Health of the Nation (2004), particularly obesity, cardio vascular diseases and diabetes. The white paper highlights the need to move to a less sedentary lifestyle to assist in health prevention over a period of time.
- Game Plan (2002) a national strategy to improve Performance as a sporting nation and fundamentally improve the physical activity levels within the UK to 70% of the nation exercising for five periods of 30 minutes per week of moderate exercise.
- An Aging Population. Locked into the two key strategies above is the theme of an aging Population. Fitness and mobility will become increasingly important, with a defined link to health and well-being in later life.

3.8 Growth in the sector is also set to be stimulated by key sporting events notably the build up to the 2012 Olympics and the bid to host the world cup in the UK in 2018.

3.9 In the light of the growth within the health and fitness sector Rossendale Leisure Trust commissioned a feasibility study through Matrix Consulting to estimate the likely demand for a commercially viable development at Haslingden Sports Centre. This site was chosen as it provides the lowest cost option for ongoing revenue costs following completion.

3.10 Matrix are a specialist in assessing demand for Health and Fitness facilities. The study involved a calculation to assess the likely uptake of fitness by percentage of population. As part of the study Matrix also investigated economic activity within the

catchment of Haslingden Sports Centre together with competitor activity.

- 3.11 The study found that the market within the catchment is operating at 62% of its level of saturation. In other words a gap within the market exists of approximately 1200 users of fitness facilities.
- 3.12 Matrix also found that these low activity levels were in part due to the low levels of exposure to quality health and fitness facilities and that a greater number and type of facilities would serve to stimulate participation.
- 3.13 Rossendale Leisure Trust developed a comprehensive business plan for the development of a lifestyle centre incorporating a 59-station health and fitness gym an aerobics studio and a combat room. The costs incorporated within the Lifestyle development also included DDA upgrades to the centre, substantial improvements to the changing room accommodation on both floors and upgrades to reception areas and the external car park.
- 3.14 The project also contains the development of a lifestyles hub which will link activity across Rossendale through a software solution. This will begin to contribute to and address in a positive manner, the health issues in Rossendale and National targets set under "Game Plan". Members may be aware that these are also included in the proposed LAAs targets to increase participation levels.
- 3.13 The Business Plan illustrated that an investment of £1.2m is required to provide a substantial quality development, which can deliver adequate revenue streams. The revenue would be sufficient to meet all payments on commercial lending charges or lease rentals, plus recovery of operation costs by month seven of operation. The facility would move into overall profitability by month thirteen.
- 3.14 The Leisure Trust has no financial reserves because of the framework under which it was set up. It can therefore, only either enter into a lease arrangement with a third party to foster off balance sheet funding through a PFI or it can raise funding through borrowing on the open market. In each case, as the Council owns the assets of the building stock the Trust needs the Council to stand as guarantor for the funding element of the development.
- 3.15 In order to do this the business plan was submitted to Rossendale Borough Council who commissioned PMP to undertake a process of due diligence. The resulting report

highlighted some concerns, notably the issue of VAT which the council could not process due to its de minimus position.

- 3.16 Following the PMP report and after careful consideration of the matter, the Trust removed some of the proposed expenditure in the areas of Kinesis and a change of the preferred equipment supplier from Technogym to Sports Art
- 3.17 The Profit and Loss statement within the business plan indicates a projected surplus of £271,362 will be achieved over the first five year period. The forecasts are dependant on the Trust converting 336 of its present 442 members into members of the new facility at a monthly membership cost of £25 per month.
- 3.18 The financial income projections within the plan do not include incomes generated through “pay and play” aerobic sessions, or combat room use.

Options

Option1

- 3.19 Rossendale Borough Council has access to low interest borrowing opportunities through Prudential Code borrowing over a 23 year term. If the council were to access funding on behalf of the trust the subsequent savings on repayments in the short to medium term would generate higher surpluses for the Trust. The Trust is required to reinvest these within the infrastructure of leisure in the community. However this provides a risk to the Council, in the event of the trust becoming insolvent the Council would be liable for the continuing repayments on any loan.

Option2

- 3.19 Rossendale Leisure Trust also has the option of raising the investment through a mini PFI which would provide off balance sheet funding requiring monthly rental payments for the development over a 15 year term. Whilst this method provides initial higher payments, the reduction in payment period reduces the total amount repaid by approximately £400,000, over the term. However any finance house would require Rossendale Borough Council to act as guarantor for the agreement. In this case should Rossendale Leisure Trust become insolvent a one-year payment holiday could be invoked to give Rossendale Borough Council a period of time to identify a new operating partner for its leisure provision.
- 3.20 In either of the above cases Rossendale Leisure Trust would be working in partnership with Alliance Leisure to ensure the facility was delivered on cost and on time. Alliance would also assist in

the Sales and Marketing functions as they already have partnership agreements with Bury MBC, Hyndburn Leisure Trust and Pendle Leisure Trust.

3.21 At the overview and Scrutiny committee meeting of the 5th January 2006 separate presentations will be made by

- PMP consultants who undertook the due diligence work
- Rossendale Leisure Trust.

3.22 Officers have stated in previous reports to this Committee and to Cabinet that in their opinion the risks of the development are contained within the business case at a reasonable level.

4. Corporate improvement priorities

4.1 Finance and Risk Management

The Partnership Delivery Plan developed by the Leisure Trust and the Council stated that there is a particular need to upgrade facilities by March 2008. Haslingden Sports Centre remains an asset and liability of the Council and the Council is responsible for the ongoing maintenance of the fabric of the building.

Haslingden sports centre is not Disability Discrimination Act compliant and is in need of internal refurbishment particularly in its reception area and changing facilities. The proposed redevelopment will resolve these issues and further enhance the facility (on a self financing basis) and potentially increase its income generating abilities.

Redeveloping the facility and in particularly the implementation of a "lifestyle" hub (not exclusively for Haslingden, but a concept for the whole of Rossendale) will begin to contribute to and address in a positive manner the health issues of Rossendale and national targets to get an increase in the percentage of the Rossendale population committed to 30 minutes of exercise each week.

The RLT business plan recognizes Haslingden Sports Hall as its most lucrative business opportunity at a reasonable capital investment and risk. The strategy is therefore to create additional profit streams out of the sports hall for reinvestment into the rest of the Council's leisure facilities which are managed by the Trust. The creation of new income streams is both more complex and uncertain in these other facilities.

Members are reminded that the Trust is a not for profit organization. Any profits must be reinvested in its services to the public of Rossendale.

Officers have previously stated that in their opinion the risks are contained within the business case at a reasonable level so as to give Members a choice on whether or not to support the Haslingden fitness suite project

4.2 Member Development and Political Arrangements

4.2.1 No material Issues other than member focus on council priorities.

4.3 Human Resources

4.3.1 There are no material Human Resource issues

4.4 Any other Relevant Corporate Priorities

4.4.1 Customer Satisfaction is a key priority for the Council. The development of improved facilities at Haslingden will improve the customer satisfaction levels at this and other facilities within the Borough.

5. Risk

5.1 See the main report

5.2 Any contract between the Trust and the Contractor would have to ensure that the risk around cost overrun is transferred to the contractor.

5.3 Officers have previously stated that in their opinion the risks contained within the business case are at a reasonable level to protect the capital financing costs.

6. Legal Implications

6.1 There are no material legal implications at this stage although appropriate contractual arrangements would be necessary to make clear the extent of the Councils commitment and security arrangements on the Loan (e.g. via changes on Assets, Trust Guarantees etc)

7. Equality Issues Arising from the Report

7.1 There are no material Equality issues arising. Current DA works for Haslingden Sports Centre have been postponed pending the outcome of the redevelopment proposal, in order to complete DA work in the optimum manner.

8. Wards Affected

8.1 All wards affected

9. Consultations

9.1 Chief Executive, Executive Director of Resources, Rossendale Leisure Trust, Overview and Scrutiny Committee.

Background Documents

Rossendale Borough Council & Rossendale Leisure Trust Partnership
Delivery Plan

Rossendale Leisure Trusts Business plan 2005-2008

Business plan Due Diligence report by PMP

**For further information on the details of this report please
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