

# Overview & Scrutiny Committee

12 July 2016

## Scrutiny review of council support for Bridport Leisure Centre – report of member working group

### For Recommendation

**Portfolio Holder:**

Cllr Mary Penfold - Enabling

**Senior Leadership Team Contact:**

M Hamilton, Strategic Director

**Report Author:**

T. Hurley, Leisure Commissioning Manager

**Statutory Authority**

Localism Act 2011 – ‘general power of competence’.

### Purpose of Report

1. To present to the committee the recommendations of the member working group established to assist the scrutiny review of council support for the operation of Bridport Leisure Centre.

### Officer Recommendations

2. That the Committee supports the recommendations of the member working group and proposes to the Executive Committee that the council’s offer of future support for the Bridport & West Dorset Sports Trust for the operation of Bridport Leisure Centre should comprise the following:
  - a) that the council offers to enter into a 10-year supplemental agreement with the Trust from April 2017 with a review on 1<sup>st</sup> April 2021 on the basis that the Trust continues to provide customers with a broadly similar range of facilities, including the swimming pools, as it currently offers;
  - b) that the management fee offered to the Trust should be £127,377 per annum for the first four years of the supplemental agreement;
  - c) that after the fourth year of the agreement, subject to the review on 1<sup>st</sup> April 2021, the management fee offered to the Trust should reduce in equal decrements to £100,000 by the final year of the agreement;

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- d) that the council offers to write-off all the loans made to the Trust by the council as outstanding on 1<sup>st</sup> April 2017 (totalling £231,422) if the Trust agrees to enter into a supplemental agreement with the council on the terms outlined in recommendations (a), (b) and (c) above;
- e) that the council should nominate two member representatives (with a reserve nominee) to attend meetings of the Trust as observers.

### Reason for Decision

3. The recommendations of Overview & Scrutiny Committee are required in order to inform decisions to be taken by the Executive Committee with regard to future council support for the operation of Bridport Leisure Centre.

### Background and Reason Decision Needed

#### (a) Research undertaken by the working group

4. At its meeting on 19<sup>th</sup> January, the Efficiency Scrutiny Committee agreed to undertake a more thorough review of the operation of Bridport Leisure Centre and the council's financial support, through the establishment of a member working group with the aim developing detailed recommendations for the Committee to submit to the Executive Committee.
5. The member working group comprised: Cllr Peter Shorland (lead member), Cllr Sandra Brown, Cllr Dominic Elliott, Cllr Ros Kayes and Cllr Daryl Turner. Cllrs Mary Penfold and Ronald Coatsworth also attended the meetings as observers.
6. The working group met three times and also undertook a site visit to Bridport Leisure Centre. As part of its review, the working group considered the following:
  - a) a presentation and revised financial proposals from the Bridport & West Dorset Sports Trust;
  - b) a submission from the Trust on the matter of its renewable energy scheme (Photovoltaic-Thermal (PV-T) panels);
  - c) information on how leisure centres in western Dorset are managed and their operation subsidised;
  - d) officers' assessment of the additional financial proposal submitted by the Trust.
  - e) a presentation from the General Manager of the South Dorset Sports Trust (which operates the Osprey Leisure Centre, Portland).
7. Since initial discussions between the council and the Trust commenced in late 2014, and during the scrutiny review, there have been various offers of funding from the council and counter-proposals from the Trust, all of which are summarised in **Appendix A**. On 13<sup>th</sup> June 2016, having been consulted on a draft version of the working group's final report, the Trust

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proposed the following variation on the working group's emerging recommendations. The Trust proposals were as follows:

- a) if the council were to offer a 10-year funding agreement from 2017 then it should include the option of a review on 1<sup>st</sup> April 2021 (at the end of four years);
  - b) that the council writes off all loans owed by the Trust to the council as if 1<sup>st</sup> April 2017 – including the 2016-17 instalment which the Trust would not expect to pay until April 2017 when it had received the 2017-18 management fee;
  - c) that the council agrees to pay the Trust the cost of any staff redundancies that the Trust may incur if it closed the swimming pool part of its operation (estimated at £56,000).
8. The working group considered these suggestions at its final meeting and although it agreed to the principal of a review of the terms of the agreement after four years, and which would give flexibility to both parties, it did not agree to the request for the council to cover the cost of staff redundancies. The issue of writing off all interest payments was not considered to be relevant if all outstanding loans from the council were written off.
  9. However the working group did take the view that if the council entered into such a 10-year agreement (with a review after 4 years) then it would be on the basis that the Trust continued to offer the community broadly the same range of services at the leisure centre as it does at present, specifically including the swimming pools.
  10. As part of the review, the working group considered the management and funding arrangements for other public leisure centres in the area. This revealed that two other trust-run leisure centres in the western Dorset area both operate without on-going public subsidy – these are the Osprey Leisure Centre (Portland) and RiversMeet (Gillingham), although the latter is a newly built facility and which benefits from a long-term, interest-free loan from its local authority. However, it should be noted that these leisure centres do have a much lower turnover than Bridport Leisure Centre.
  11. At its final meeting, the working group invited the manager of Osprey Leisure Centre (operated by the South Dorset Sports Trust) to attend and explain his approach to operating a trust-run facility. The working group learnt that the trust had taken a very proactive approach to on-going fund-raising and also to generating income through creative means, such as the sub-letting areas of the building to other complimentary businesses.
  12. The working group also invited the Bridport & West Dorset Sports Trust to highlight any measures that it is putting in place to generate additional income to help cover operating costs. The Trust indicated that it was seeking voluntary additional contributions from its 'price for life' members, despite their monthly fee being permanently fixed at the point of enrolment. However, the Trust stated that it was also facing increased costs as a result of the National Living Wage and changes to pensions.

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13. It should be noted that the Trust had initially asked the council to undertake to meet 100% of the cost of its National Non-Domestic Rates annual bill even if, in future, the government changed the current rules whereby charities can obtain 80% mandatory relief and 20% discretionary relief. Currently the council is required to meet the cost of 40% of the total annual rates bill in order to provide the Trust with 100% relief. However, the Trust's revised proposals for financial support, as set out in paragraph 7 above, no longer include this request. Clearly there is a significant benefit to local charities if the council can provide discretionary rate relief, but the capacity to do this will entirely depend on the council's financial position in future years and cannot, at this stage, be guaranteed.

### **(b) Recommendations of the working group**

14. In arriving at its recommendations the working group took the following into account:
- the complexities relating to the problematic PV-T renewable energy scheme, particularly as the Trust is currently pursuing a claim via the installer's insurance company. In addition, it was not clear whether cost-effective repairs could be undertaken and thereby restore the system's ability to generate income for the Trust;
  - the potential for the Trust to generate further income from its existing assets;
  - the extremely challenging financial position of the council and its need to reduce its annual revenue budget by £4.32 million by 2020.
15. Having carefully considered the information gathered as part of the review, the working group is recommending to Overview & Scrutiny Committee that the council offers the following arrangements to the Bridport & West Dorset Sports Trust for the operation of Bridport Leisure Centre (reflecting the proposal set out in the Executive Committee report of 9<sup>th</sup> February 2016):
- a) that the council offers to enter into a 10-year supplemental agreement with the Trust from April 2017 but with provisions for a review of the arrangement (and the terms of the agreement) at the end of the fourth year;
  - b) that the management fee offered to the Trust should be £127,377 per annum for the first four years of the supplemental agreement;
  - c) that after the fourth year of the agreement, and subject to the review, the management fee offered to the Trust should reduce in equal decrements to £100,000 by the final year of the agreement.
  - d) that the council offers to write-off all the loans made to the Trust by the council as outstanding on 1<sup>st</sup> April 2017 (totalling £231,422) if the Trust agrees to enter into a supplemental agreement with the council on the terms outlined in recommendations (a), (b) and (c) above.

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- f) that the council offers to enter into a 10-year supplemental agreement with the Trust from April 2017 on the basis that the Trust continues to provide customers with a broadly similar range of facilities, including the swimming pools, as it currently offers;
  - g) that the council should nominate two member representatives (with a reserve nominee) to attend meetings of the Trust as observers.
16. The total value of the loans currently owed by the Trust to the council is £231,422 (excluding interest). However, as highlighted by the Trust, it plans to meet the cost of 2016-17 loan repayment instalment (£47,470 due in March 2017) from any 2017-18 management fee (paid in April 2017). So although the Trust should only owe the council £190,893 on 1<sup>st</sup> April 2017, in reality the actual amount outstanding will be £231,422. The working group were supportive of the council writing-off this higher amount (£231,422) as part of the new agreement offered to the Trust.
17. With regard to the Trust's request for a council grant to enable it to pay of the commercial loan for the PV-T panel scheme, the working group considered that, given Trust's on-going claim against the installer's insurance policy and the potential for the equipment to be put into full working order, it would be inappropriate for the council to intervene.
18. Through the review, the working group gained an appreciation of the hard work undertaken by the Trust in providing an excellent facility and attracting high customer numbers given the relatively small population in its catchment. However, members concluded that there is a need to strike a balance between providing on-going support and the significant financial challenges facing the council. The council also needs to bear in mind its responsibilities for supporting the operation of the Dorchester Sports Centre.
19. Although not a specific recommendation, the working group concluded that the Trust should strive to do more in terms of community fund-raising and also generate new income streams from innovative practices (as is the case with the Osprey Leisure Centre). With this in mind, the working group recommended that the council nominate member representatives to attend Trust meetings as observers and to scrutinise its efforts in this area.
20. In conclusion, when considering the recommended offer to the Trust (as set out in paragraph 15 above) it is worth comparing this with the initial request made by the Trust in October 2014 (see Appendix A). This comprised a request for a continuation of the management (linked to inflation) of approximately £173k per year for 10 years and a commitment for the council to meet any rates liabilities if mandatory or discretionary relief was not available. Under this arrangement the Trust would have continued to repay its loans to the council.

## Implications

21. **Corporate Plan.** Priority: B3. Facilitating sustainable leisure, culture and community activities.
22. **Financial.** Any offer of financial support to the Trust would need to be made in advance of budget setting for 2017-18. Any offer of financial support to the Trust needs to be considered in the context of council's need to make significant reductions (totalling £4.32 million) in its annual revenue expenditure by the end of the decade in order to achieve an annual balanced budget.
23. The council's corporate projects reserves would be used to fund any clearing of the outstanding loans to the Trust, although this would adversely affect the council's ability to fund other corporate projects.
24. **Equalities.** The centre provides a range of activities that are accessible to the community, particularly those with disabilities and other specific needs.
25. **Economic Development.** The Bridport & West Dorset Sports Trust is a significant local employer and the Trust claims to employ approximately 100 people in full and part-time roles.
26. **Risk Management (including Health & Safety).** The primary risk is that the Trust will cease to operate the swimming pools at the leisure centre and attempt to continue operating the dry-side facilities only, thereby significantly reducing access to swimming facilities in the western part of the district. However, there is also a significant risk that the council could enter into a long-term financial arrangement that it may not be able to afford in future years, given that leisure centres are discretionary services.
27. An additional risk is that the Trust is unable to accept a package of financial support offered by the council, based on current operating costs, and takes the decision to close the swimming pools but retain the profit-making facilities (i.e. studios, fitness suite, sports hall and pitches). The pools would then need to be decommissioned. However, if the Trust decided to close the entire centre and relinquish its lease from Palmers Brewery, then the district council would, under the terms of the lease, be given 6 months to nominate another charitable body to become the new tenant.

## Consultation and Engagement

28. In undertaking the scrutiny review, the working group engaged with the Bridport & West Dorset Sports Trust.

## Appendices

29. **APPENDIX A** - Summary table of proposals and offers of financial support for Bridport Leisure Centre.

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## Background Papers

30. Report to Efficiency Scrutiny Committee 19<sup>th</sup> January 2016 – *Financial Support for Bridport Leisure Centre*.

## Footnote

31. Issues relating to financial, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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### APPENDIX A - Summary table of proposals (from B&WDST) and offers (from WDDC) of financial support for Bridport Leisure Centre

Initial proposal from Trust	Initial offer from WDDC 26 <sup>th</sup> November 2015	Revised proposal from Trust 7 <sup>th</sup> December 2015	Updated proposal from Trust 12 <sup>th</sup> May 2016	Alternative proposal from Trust 12 <sup>th</sup> May 2016
<ul style="list-style-type: none"> <li>• 10-year agreement (from 2016)</li> <li>• Management fee = £174,848 (linked to inflation).</li> <li>• Council commits to meeting cost of 100% rate relief.</li> <li>• Commitment to renewing agreement in 2026 for another 10 years.</li> </ul>	<ul style="list-style-type: none"> <li>• 10 year agreement (from 2016)</li> <li>• WDDC writes off loans to trust = £231,422.</li> <li>• Management fee of £127,377 for four years.</li> <li>• Management fee then reduces gradually to £100k by end of 10 years.</li> <li>• Council could not commit to meet total cost of rate relief.</li> </ul> <p>In addition:</p> <ul style="list-style-type: none"> <li>• WDDC would enter into longer agreement (until end of Trust's lease in 2034) on the basis that the management fee would reduce from £100k (in year 10) to zero by 2034.</li> </ul>	<p>Trust accepted the council's initial proposal but also requested:</p> <ul style="list-style-type: none"> <li>• WDDC also writes off loan repayment due in 2015-16 (paid in March 2015) = £48,686</li> <li>• Council give grant to Trust to enable it to pay off Lloyds loan for PV panels = £216,247</li> </ul>	<p>The updated proposal from the Trust was as follows:</p> <ul style="list-style-type: none"> <li>• New agreement from 2017 to 2034.</li> <li>• WDDC writes off loans to Trust (including 2016-17 payment).</li> <li>• WDDC pays Trust management fee of:               <ul style="list-style-type: none"> <li>• £127,000 for first 3 years.</li> <li>• Fee reduces to £100k by year 10.</li> <li>• Fee remains at £100k until 2034.</li> </ul> </li> <li>• WDDC grant of £220,000 to Trust to enable it to pay off Lloyd's loan for PV-T panels.</li> <li>• WDDC pays Trust £200,000 grant as 'working capital'.</li> </ul>	<p>Instead of annual financial support, the following is proposed:</p> <ul style="list-style-type: none"> <li>• A large sum is ring-fenced or invested by WDDC sufficient for the interest payments to be equivalent to the current management fee paid to the Trust.</li> </ul> <p>(Council officers estimate that this sum would need to be approximately £8.7 million).</p>