

Adjustments to the MTFS.

Cllr Elizabeth Little, Cabinet Member for Recycling and Leisure

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Agenda Item: 20

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Key Decision? Yes

Local Ward Members
All Members


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**COUNCIL
Redacted**

1. Executive Summary

- 1.1 This report relates to the need to amend the Medium Term Financial Strategy (MTFS) as a result of Cabinet's decision on 9 July 2019 to withdraw from Friary Grange Leisure Centre (FGLC) by 30 April 2020.
- 1.2 The net revenue cost to LDC of a permanent closure of FGLC over the next 5 years includes contractual payments to Freedom Leisure to meet redundancy costs, a potential Sport England (SE) grant repayment and other withdrawal costs. These costs will be partly offset by a lower management fee payable to Freedom Leisure from May 2020. One-off costs can be met from an earmarked reserve.
- 1.3 The council also seeks to implement an action plan that will mitigate the effects of closure on specific users.

2. Recommendations

- 2.1 It is recommended that Council updates the Medium Term Financial Strategy, given the decision by Cabinet regarding Friary Grange Leisure Centre, to allocate £75,000 (£25,000pa for 3 years from 2020) in revenue offset by contract savings of £101,202 (over 5 years from 2020) and to meet potential one-off costs of £520,400 to be funded from the earmarked reserve titled "Leisure VAT Reclaim".

3. Background

- 3.1 Leisure, Parks and Waste (O&S) Committee were informed about the worsening condition of FGLC in January and March 2019 and at its meeting on 12 June 2019 considered a report on this matter; detailing the condition of the building, the Friary School academisation process and the impacts that this change could mean for LDC.
- 3.2 After considering the report in June, the Committee recommended to Cabinet as follows:-
 - a) That the District Council should exit the building by April 2020 because of the unfavourable terms of a new lease being proposed by Staffordshire County Council, the current poor condition of the building and the level of investment that would be required to make good the building.
 - b) To work with Freedom Leisure to manage an orderly withdrawal of the leisure service at Friary Grange Leisure Centre by the end of April 2020.

- c) To identify any possible alternative provision for leisure centre users and consider how a transition to these could be facilitated.
 - d) To develop a proposal within the next 12 months for how current and future leisure needs for the District could be met.
 - e) That the Committee be kept apprised on the mitigation strategy and work on future leisure provision
- 3.3 Cabinet considered a report at its meeting on 9 July 2019 including the recommendations from Leisure Parks and Waste (O&S) Committee and decided to exit Friary Grange Leisure Centre after April 2020. The financial reasons for this are as follows.
- 3.4 The FGLC building is nearly 50 years old and at the end of its economic life. A minimum of £443,000 (net of VAT) investment is needed to get and maintain the building safe, watertight, weather proof and operational for up to 5 years.
- 3.5 This only deals with a 'fix' that stabilises the building so that it is operationally fit for purpose for a short period of time and additional costs might be incurred in the future. Without the minimum investment, it is probable that significant issues will materialise either when any repair works commence or over the next 5 years and that FL will be forced to continue temporarily closing FGLC, or that safety concerns at the building will worsen.
- 3.6 The risk associated with a visual inspection could be significant insofar as it cannot identify additional challenges and problems that sit behind the visible face of a building. Therefore, more work might be needed and costs could increase as a result of unknown conditions. In addition, costs are likely to be incurred from year 6 onwards, if not beforehand, due to the 'fix' approach to keeping the building operational. SCC has stated that it doesn't intend to invest in FGLC or contribute to any capital works.
- 3.7 FL has already closed FGLC at times over the past 9 months because of concerns over Health and Safety due to the poor condition of the facility, breakdowns in plant, water ingress, exposed asbestos, and failure of electrical systems. Some parts of the building remain closed to the public due to damage from water ingress and exposed asbestos, but presently there is no Health and Safety risk.
- 3.8 With the assistance of Staffordshire County Council (SCC) Friary School is transferring into an Academy (Greywood Multi-Schools Trust), from August 2019. As a result of this academisation process, SCC has issued LDC with 12 months' notice of the 1971 Joint User Agreement from 30 April 2019, with a termination date of 30 April 2020.
- 3.9 In parallel to issuing notice, SCC presented LDC with draft Heads of Terms for a 10-year full repairs and maintenance lease (with a break clause at five years), which excluded the current usage of the sports hall and all weather pitch beyond April 2020.
- 3.10 The proposed lease was not favourable to LDC; primarily because it contained requirements for full repairs and maintenance on a building that required significant investment to make good, it held LDC to timescales that are not suited to its requirements (minimum 5 years term), and it removed the lucrative commercial elements of use that the council had previously which consequently made the leisure centre less commercially viable.
- 3.11 LDC had historically paid a service charge to Friary School based on the JUA which referred to a share of capital and running costs based on the level of reserved hours which equated to approximately £151,000¹ per year. A full repairs and maintenance lease was likely to increase this share of running costs because there would have been more management and maintenance responsibilities.
- 3.12 When LDC hands back the property to SCC, it's likely that the leisure facility will close and SCC could be accountable for any claw back by SE from the grant for improvement works at FGLC in 2013

¹ The content of the costs associated with the £151,000 recharge are likely to change as a result of academisation, changes in roles and responsibilities, a revised JUA with the academy, business rates review and any additional management and maintenance.

(£200,400). A passport agreement passes this liability to LDC, however LDC could challenge repayment because terms under the Passport Agreement were broken by SCC when it issued notice to us.

- 3.13 Whilst FL will seek to minimise redundancies, LDC will pick up costs from staff that are currently employed by FL at FGLC as a result of contractual arrangements and will also incur any withdrawal costs such as contract penalties and ancillary costs. This gives total 'one off' costs of £520,400.
- 3.14 The contract with FL identifies the element of the contract price for FGLC as £797,564 over the ten year period 2017/18 to 2027/28 and FL have revised this to £662,579 if the centre closes. This has been recalculated in collaboration with FL to cater for non-saveable costs associated with running BLC alone when FGLC closes. The revised fee for the 4 years from 2020/21 to 2023/24 will produce a saving of £101,202² over five years.

Financial summary.

'One Off' Costs				Freedom Contract		Total
	Sport England Grant		Sub Total	Existing Contract	Sub Total	
	£200,400		£520,400	(£101,202)	(£101,202)	£419,198

- 3.15 Cabinet also decided that a 'Mitigation Strategy' should be prepared to enable the council to manage the process of closure as effectively as possible. This is not a legal or statutory undertaking to LDC, but it reflects its best endeavours to mitigate the effects of closure for those identified in our hard to reach groups and provide support to others seeking an alternative.
- 3.16 £25,000 per year for three years 2020- 2023 has been calculated to support the delivery of the mitigation strategy, these funds will be used to target activities for the council's hard to reach groups as identified in the council's Physical Activity and Sport Strategy. This was calculated using the value of the current number of over 60s Leisure Activity Passports that are provided for at FGLC.

Alternative Options	1. There are no alternative options.
Consultation	<ol style="list-style-type: none"> 1. Informal consultation has taken place with Freedom Leisure, Friary School, Staffordshire County Council and Sport England. 2. The Leisure Parks and Waste (Overview and Scrutiny) Committee at its meeting on 12 June 2019 considered a report on this matter and made recommendations to Cabinet. 3. Cabinet considered a report on 9 July 2019 and made the following decisions. <ol style="list-style-type: none"> a) That the Council exits the building by April 2020 because of the unfavourable terms of a new lease being proposed by Staffordshire County Council, the current poor condition of the building and the level of investment that would be required to make good (option 1). b) That Council be requested to update the Medium Term Financial Strategy accordingly based on the preferred option (option 1 in para 3.20) with £75,000 of the contract savings of (£101,202) set aside to fund the mitigation strategy and funding for the One off Costs identified of £520,400 provided by the Earmarked Reserve titled Leisure VAT Reclaim of £896,940.

² For the purposes of this report, the 5 year figure has been used to allow for consistency in the budgeting timescales.

- c) The Council is to work with Freedom Leisure to manage an orderly withdrawal of the leisure service at Friary Grange Leisure Centre by the end of April 2020.
- d) To identify any possible alternative provision for leisure centre users and consider how a transition to these could be facilitated.
- e) To develop a proposal within the next 12 months for how current and future leisure needs for the district could be met.

Financial Implications

Amending the contract with Freedom Leisure to reflect the exit of Friary Grange Leisure Centre will have the following ongoing revenue implications:

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027	Total
Bid	£46,511	£133,536	£96,977	£87,929	£77,121	£72,967	£68,725	£64,275	£59,976	£55,626	£33,923	£797,564
Revised	£46,511	£133,536	£96,977	£87,929	£25,397	£45,962	£46,251	£46,544	£46,840	£47,139	£39,493	£662,579
Change	£0	£0	£0	£0	(£51,724)	(£27,005)	(£22,474)	(£17,731)	(£13,136)	(£8,487)	£5,570	(£134,985)
Saving over a Five Year Period					(£101,202)							
Saving over the remaining Contract Period					(£134,985)							
Recommended Mitigation Strategy	£0				£27,526	£25,000	£22,474	£75,000				
Net Saving after Mitigation (5 years)	£0				(£24,198)	(£2,705)	£0	(£26,202)				

It is anticipated that there will be an additional revenue spend of £25,000pa from 2020/21 for three years to deliver a mitigation strategy.

There are also potential one-off costs as follows, which are intended to be met by the Leisure VAT Repayment earmarked reserve:

1)	2) Sport England Grant		Sub Total
██████████	£200,400	██████████	£520,400

1. Compensation to Freedom to meet redundancy costs – the maximum estimated redundancy costs – this figure might change given staffing changes over the next few months.
2. To provide a budget should the district council be responsible for any re-payment to Sport England, rather than the county council, for the grant received to refurbish the wet side changing rooms in 2013.
3. To meet ancillary costs including early contract penalties.

Contribution to the Delivery of the Strategic Plan

1. The Council's MTFS underpins the delivery of the Strategic Plan.

Equality, Diversity and Human Rights Implications

1. An Equality Impact Assessment was completed which aided the creation of the framework for a mitigation strategy.

Crime & Safety Issues

1. None associated with this report.

GDPR/Privacy Impact Assessment

1. None associated with this report.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Closure is completed in a disorganised way that affects the finances of the council.	<ul style="list-style-type: none"> • Close monitoring of closure process and expenditure. • Maximising the potential of reducing cost impacts. • Early identification of any unexpected impact on costs. 	M/H
B	Financial forecasting isn't fully predictable due to the complexities of contracts, conditions of assets and 3 rd party involvement.	<ul style="list-style-type: none"> • The most up to date budgets are provided with updated versions on a continual basis. 	M/M
C	Risk of dilapidation costs.	<ul style="list-style-type: none"> • A novation agreement is being prepared between LDC and SCC to mitigate this. 	M/M

Background documents

Relevant web links