

SEVENOAKS LEISURE CENTRE - APPLICATION FOR A LOAN BY SENCIO COMMUNITY LEISURE

Finance Advisory Committee - 31 January 2017

Report of Chief Officer - Communities & Business

Status: For Decision

Also considered by: Housing & Health Advisory Committee - 28 February 2017
Cabinet - 9 March 2017

Key Decision: Yes

Executive Summary: Sencio Community Leisure have brought forward plans for works to Sevenoaks Leisure Centre to extend the gym in order to take advantage of unmet latent demand for fitness in Sevenoaks. Members are asked to agree a loan to Sencio of £600,000 over ten years at an interest rate of 6% per annum.

This report supports the Key Aim of reducing health inequalities and improving health and wellbeing for all.

Portfolio Holder Cllr. Michelle Lowe, Cllr. John Scholey

Contact Officer Simon Davies, Ext. 7374

Recommendation to Finance Advisory Committee:

That Members recommend to Cabinet that Sencio be granted a loan of £600,000 over ten years at an interest rate of 6% per annum under the terms set out at Paragraph 29.

Recommendation to Housing & Health Advisory Committee:

That Members recommend to Cabinet that Sencio be granted a loan of £600,000 over ten years at an interest rate of 6% per annum under the terms set out at Paragraph 29.

Recommendation to: Cabinet:

- a) That Members agree a loan of £600,000 over ten years to Sencio at an interest rate of 6% per annum and;
 - b) That Members delegate powers to Officers to draft a loan agreement and License for Alteration in accordance with the recommendations set out at paragraph 29.
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Reason for recommendation: The gym at Sevenoaks Leisure Centre does not currently have sufficient capacity to take advantage of the numbers wishing to use it. The proposed works to Sevenoaks Leisure Centre will allow Sencio to take advantage of unmet latent demand in the town and to make improvements to the building, which is owned by the Council.

Introduction and Background

- 1 The original Sevenoaks Swimming Centre, which dated from the 1980s, was developed into a leisure centre by the construction of an extension to incorporate a 38 station fitness suite, health suite and a dance studio. The extended leisure centre was opened in February 2001.
- 2 Sencio Community Leisure, a not-for-profit leisure trust, was set up in 2004 and Sevenoaks Leisure Centre, along with Edenbridge and White Oak Leisure Centres and Lullingstone Park Golf Course, was transferred to Sencio on a 25 year lease, which is due to expire in 2029.
- 3 In 2008, Sencio undertook works to Sevenoaks Leisure to increase capacity at the gym. The health suite was removed and replaced by changing rooms and the fitness gym was extended to include 60 stations. The cost of these works was funded by a loan from this Council of £250,000 over ten years. Sencio will finish paying this loan in 2018.
- 4 Over the last few years, the gym at Sevenoaks Leisure Centre has become very busy with customers having to wait to use specific pieces of equipment.
- 5 Sencio's current membership of 2,200 results in a ratio of 37 members per station, which is in excess of the Sports England recommended 25-30 members per station.
- 6 Sencio have been exploring options for extending the number of stations to relieve pressure on stations and to take advantage of latent demand for fitness in the Sevenoaks area.
- 7 Sencio have developed a proposal with Createability, a design and construction company who specialise in leisure refurbishments, for works to extend the refurbish and extend the current gym at Sevenoaks Leisure Centre.
- 8 Sencio are asking Sevenoaks District Council for a loan of £600,000 to fund the building works at Sevenoaks Leisure Centre.

Leisure In Depth Scrutiny

- 9 The Leisure In Depth Scrutiny Working Group considered whether Sencio offered value for money and what areas of cost could be reduced.
- 10 The Working Group considered that there were a number of positive aspects to the provision of leisure services by Sencio. Sencio's management fee had reduced by 84% between 2004 and 2015, whilst usage had risen by 4.3%.

Sencio had made investments to improve the leisure offer in the District and maximise their income. Sencio's Sales Manager had made significant changes to drive up memberships and maximise income. Sencio had undertaken measures to reduce head office and other costs.

- 11 However, taking into account Sencio's efforts to increase its income and reduce its costs, the sub-committee did not consider that Sencio offered good value for money to the Council as they had failed to ensure that their income significantly outweighed their operating costs. Scrutiny Committee on 5 July, resolved that Cabinet review the management and asset management fees paid to Sencio and consider whether the Council could more effectively carry out the outreach element of the Sports Development function while retaining part of the management fee.
- 12 Cabinet, on 15 September 2016, discussed the report and resolved that the report be referred to the Housing and Health Advisory Committee.
- 13 Housing & Health Advisory Committee, on 4 October 2016, resolved that the management and asset management fees paid to Sencio be considered. Subsequently, a reduction in management fees was put forward as a budget saving for 2017/18 onwards.

Proposed Works

- 14 A copy of Sencio's proposal is set out at Appendix A. Sencio proposes the following works at Sevenoaks Leisure Centre:
 - Conversion of the existing little used toddler pool into a new dance studio/multi-use space with storage.
 - Conversion of redundant spa area into dedicated changing areas - male and female;
 - Conversion of existing changing areas into downstairs fitness gymnasium (free weights/functional);
 - Refurbishment of existing dance studio and new access corridor to new dance studio;
 - Refurbishment of existing fitness gymnasium and disabled change;
 - Refurbishment of first floor corridor to existing fitness gymnasium;
 - Development of new corridor to existing teaching pool;
 - New flooring to reception and catering area;
 - Provision of new fitness equipment (100 stations).

Latent Demand

- 15 In 2014, SDC commissioned The Sports Consultancy Ltd (SCL) to undertake a business case review for the extension of the gym at Sevenoaks Leisure Centre.
- 16 The report profiled consumers on a postcode basis and their propensity to join health and fitness clubs. It considered any competing facilities in the catchment area and enabled a detailed estimate of the likely overall membership targets to be defined.
- 17 The study identifies a latent demand for the area of 2,900. Sencio's current gym membership at Sevenoaks Leisure Centre stands at 2,200. The unmet latent demand in the Sevenoaks area is 700.
- 18 Sencio's Business Plan is based on a net gain of 513 new members by year 3 of the plan.

Project Funding

- 19 The total cost of the building works at Sevenoaks Leisure Centre is £ 681,716 including VAT. Createability guaranteed this price up to December 2016 and indicated that 2% per quarter will need to be added for inflation purposes. Therefore, from January 2017, the total cost of the building work will be £695,350.
- 20 Following the demolition of Raley's gym, the Section 106 planning agreement has identified £95,000 to be made available by Sevenoaks Town Council to support leisure provision elsewhere in the town. The Town Council has confirmed that the £95,000 will be provided towards this project.
- 21 Sencio are asking the Council for a loan of £ 600,000 to fund the building work.
- 22 The cost of new fitness equipment, free weights etc for the gym will be £286,000 excluding VAT. This equipment will be leased and financed by Sencio.
- 23 A summary of the funding for the refurbishment is as follows:

TOTAL PROJECT COSTS (based on the contract being issued before 31 March 2017)

	£000
Total cost of building works, inc. VAT	695
Cost of new fitness equipment, exc. VAT	286
TOTAL	981

PROPOSED FUNDING FOR PROJECT

	£000
Cost of equipment leasing to be met by Sencio	286
Sevenoaks Town Council Section 106 funding	95
Requested loan from SDC	600
TOTAL	981

Key Implications

Financial

- 24 The income and expenditure figures included in the cash flow statement show that the additional income from users is more than the annual costs incurred for additional running costs and loan repayments.
- 25 The loan would be issued at an interest rate of 6% per annum to be repaid over 10 years. The interest rate has been set at 6% per annum to ensure that Council funds are achieving the same return as if they had been invested using the Property Investment Strategy. The current average return from Treasury investments is 0.5%.
- 26 The funding for this project will not come from the Council's Property Investment Strategy funds, nor is the project being undertaken as part of the Property Investment Strategy.
- 27 Based on the expected additional income levels, the cost of the works will adequately increase the value of Sevenoaks Leisure Centre.

Legal Implications and Risk Assessment Statement.

- 28 Under the terms of their lease, Sencio will need consent from this Council as the landlord for any alterations or additions in relation to activities consistent with the Permitted Use of the building as a leisure centre.
- 29 The agreed works will be recorded by way of a Licence for Alterations. The Licence will set out the terms for the works, and it is recommended that these will include:
- That the improvements will be made to the Council's satisfaction;

- That the works be carried out in accordance with any statutory requirements, the cost of which need to be met by Sencio prior to any work commencing;
- Sencio will be responsible for the ongoing maintenance of and repairs to the works covered by the loan;
- At the end of the current lease in 2029, the Council will not be liable to pay Sencio for the improvements made.
- In the event that Sencio defaults on its loan repayment for the works, the Council will look to declare Sencio insolvent and thereby in breach of the lease and, subject to the Court's relief, terminate the same. This will be actioned if Sencio makes one loan repayment in excess of 30 days late or three loan repayments in excess of one day late.

Equality Assessment

- 30 Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to (i) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010, (ii) advance equality of opportunity between people from different groups, and (iii) foster good relations between people from different groups. The decisions recommended through this paper directly impact on end users. The impact has been analysed and does not vary between groups of people. The results of this analysis are set out immediately below.
- 31 Health and wellbeing activities at Sevenoaks leisure centre are open to all residents. Some restrictions may apply to certain activities and pieces of equipment in the gym due to age or pregnancy/maternity. The proposed alterations to the leisure centre will allow more capacity for residents to access the service.

Safeguarding Children and Vulnerable Adults

- 32 Sencio has robust arrangements in place to safeguard children, young people and vulnerable adults.

Community Impact and Outcomes

- 33 The alterations proposed by Sencio will make improvements to the leisure centre.
- 34 The proposed works will provide additional capacity for local residents and community groups to use the leisure centre. Additional capacity at the leisure centre will enable Sencio to better assist community groups and to support health and wellbeing initiatives.
- 35 Officers will produce a communications plan to ensure that members of the public are aware of the improvements.

Conclusions

- 36 Sencio have brought forward proposals for works to Sevenoaks Leisure Centre to take advantage of unmet latent demand in the town. Members are asked to agree a loan of £600,000 for Sencio at an interest rate of 6% per annum, in line with the Council's Property Investment Strategy.

Appendices

Appendix A - Sencio proposal for Sevenoaks Leisure Centre and Business Plan.

Background Papers:

Sevenoaks Leisure Centre Business Case Review
(Appendix A)

Lesley Bowles - Chief Office Communities & Business

Adrian Rowbotham - Chief Finance Officer