

## IMPROVEMENTS TO SEVENOAKS LEISURE CENTRE

### Scrutiny Committee - 4 July 2017

Report of	Chief Officer Communities & Business and Chief Finance Officer
Status	For information
Key Decision	No

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**This report supports the Key Aim of Healthy Communities**

**Portfolio Holder** Cllr. Michelle Lowe, Cllr. John Scholey

**Contact Officers** Lesley Bowles, Ext. 7430, Adrian Rowbotham, Ext. 7153

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#### **Recommendation to Scrutiny Committee:**

To note the report.

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**Reason for recommendation:** At its meeting on 30<sup>th</sup> March, Members asked for a report to be brought back to the Committee covering the financial risks to the Council with the trading history and future performance of Sencio. Members also asked how the repayment of the loan to Sencio for improvements to Sevenoaks Leisure Centre would be affected if the management fee the Council paid were removed.

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#### **Introduction and Background**

1 On 9<sup>th</sup> March 2017 Cabinet approved a loan of £600,000 to Sencio Community Leisure to enable Sencio to make improvements to the Sevenoaks Leisure Centre and to increase its capacity. A copy of the report is attached at Appendix A. The loan period agreed was ten years at an interest rate of 6% per annum. In making its decision Cabinet considered the risks involved with the proposal. It was agreed that the works would be recorded by way of Licence for Alterations that would ensure the Council's position as follows:

- 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.'
- 2 Cabinet considered a recommendation from Housing & Health Advisory Committee to approve the loan. Housing and Health Advisory Committee made the recommendation taking into account presentations from Sencio and Creatability, the company working with Sencio on the proposed improvements.
  - 3 Cabinet considered a recommendation from Finance Advisory Committee to approve the loan taking into account the conditions set out in paragraph 1 above and noting that the proposed terms would keep the Council protected and the loan would see improvements for Sencio's business and Sevenoaks residents.
  - 4 Cabinet heard from the Chief Finance Officer that he was satisfied that the proposal was financially acceptable.
  - 5 The report to Cabinet included the Leisure In Depth Scrutiny Working Group's findings that the group did not consider that Sencio offered good value to the Council as they had failed to ensure that their income significantly outweighed their operating costs. Also that Scrutiny had recommended that Cabinet review the management and asset management fees paid to Sencio. Cabinet referred this recommendation to Housing and Health Advisory Committee and as a result, a SCIA was put forward for the 2017/18 budget that the management fee should be reduced by £44,000.
  - 6 Cabinet also took into account the business case provided by Sencio, together with their predicted additional income and expenditure over the first five years of operation of the improved facilities.
  - 7 In addition to the £600,000 loan from the District Council, Sencio would also be receiving from Sevenoaks Town Council, the sum of £95,000 towards additional multi-use studio space to offset the loss of the gym at Raleys and which enabled the Town Council to discharge their Section 106 agreement on their planning permission for residential development on the Raleys site. The additional multi-use studio space forms part of this project.

## Financial risks to the Council

- 8 As set out in paragraph 1 above, the conditions of the Licence and Loan Agreement protect the Council against financial risk. If Sencio were to default and become insolvent, the improvements to the Council's leisure centre would enable the Council to procure a replacement provider more easily.
- 9 The Licence and Loan Agreement provide for Sencio to undertake future maintenance of the areas involved, which reduces the need for the Council to maintain these areas.

## Sencio Trading and Future Performance

- 10 Information about Sencio's trading history is shown in the table below. The Chief Executive and Chairman of the Sencio Board will attend the Scrutiny meeting and be able to answer any questions Members have relating to their trading position.

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<b>Sencio Trading History</b>				
	2013	2014	2015	2016
	£000	£000	£000	£000
Income	4,618	4,893	4,728	4,623
Expenditure	4,613	4,684	4,738	4,622
<b>Surplus/(Deficit)</b>	<b>5</b>	<b>209</b>	<b>(10)</b>	<b>1</b>
<u>Notes:</u>				
Depreciation included in Expenditure	94	118	139	141
Management Fee included in Income	81	81	81	81

- 12 Over these years, a Management Fee of £80,950 has been paid to Sencio. In 2017 the Management Fee payable will be £36,950.

- 13 The following table shows a comparison of the projected trading position for Sencio without the gym extension and with the gym extension.

<b>Sencio Projected Trading position</b>				
	Without Gym Extension		With Gym Extension	
	2018	2019	2018	2019
	£000	£000	£000	£000
Income	5,053	5,157	5,436	5,540
Expenditure	5,052	5,152	5,348	5,450
<b>Surplus / (Deficit)</b>	<b>1</b>	<b>5</b>	<b>88</b>	<b>90</b>
<u>Notes:</u>				
Depreciation included in Expenditure	129	131	230	232
Management Fee included in Income	37	37	37	37
Loan Repayments included in Expenditure	-	-	80	80

- 14 A summary of the investments that Sencio have made to the buildings, equipment and business operation from their annual operating budget over the past few years are set out at Appendix B.

#### **Update on the improvements to Sevenoaks Leisure Centre**

- 15 The Licence for Alterations and Loan Agreement have been drafted by the Council's Legal and Finance teams and are with Sencio. Sencio has issued a letter of intent to Creatability, their contractor. Sencio's solicitor is advising Sencio regarding the JCT contract between Creatability and ensuring the necessary insurances are in place whilst the works are in progress. Arrangements between Sencio and Sevenoaks Town Council for the payment of £95,000 towards the works are being finalised and the funding should be with Sencio by the end of June 2017. Sencio hope that the works will start on 17<sup>th</sup> July. The next edition of In Shape will help to promote the work and Sencio will have a full communications plan in place.

## Key Implications

### Financial

These are dealt with in paragraphs 8 to 14 above.

### Legal Implications and Risk Assessment Statement.

These are covered by the Licence and Loan Agreement.

Risk	Mitigation
That the works to the building may not be done to the Council's satisfaction	The work is covered by a Licence for Alterations, drawn up by the Council's legal team, to be agreed by the Council and Sencio before work commences. The Council's Officer who routinely works with Sencio on the condition of the leisure centres will keep a close eye on the work that is undertaken and attend project meetings. Loan instalments will only be paid upon satisfactory completion of the work.
That Sencio may not be able to repay the loan	<p>Sencio's business plan provides for additional income from the enhanced facility to cover the loan repayments. The business plan is based on latent demand figures that have been independently checked by the Council's adviser. The unmet latent demand is calculated at 700 using industry standard figures. Sencio's business plan is based on a net gain of 513 new members by year 3 of the plan.</p> <p>Sencio have routinely invested in buildings and equipment over the last few years and have paid for these investments from their operating income.</p> <p>The Loan Agreement has been drawn up by the Council's legal and finance teams. Should Sencio default on the loan, the Council would look to have them declared insolvent and find a new provider. This would be the case if Sencio makes one loan repayment in excess of 30 days late or three loan repayments in excess of one day late.</p>
Impact on existing customers	A communications plan will be put in place by Sencio to keep customers informed and to market the new facilities in advance. The works will be phased so that any disruption to users is kept to a minimum.

## **Equality Assessment**

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

### **Appendices**

Appendix A - Report to 9 March 2017 Cabinet

Appendix B -Summary of Sencio's investments

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