1. **Purpose of Report**

1.1 To confirm Executive approval to spend £1,000,000 capital funding on physical improvement to agreed areas within Yarborough Leisure Centre, to be funded through additional borrowing.

1.2 In line with the terms of the City Council’s extended contract agreement with Active Nation, officers seek approval to spend an additional £200,000 on essential enhancements to the external fabric of the building, to be funded through additional borrowing.

2. **Executive Summary**

2.1 As part of the fundamental review under the ‘Towards Financial Sustainability Programme’, on the 25th November 2013 Executive approved a 10 year extension to the City Council’s Contract with Active Nation. This new contract will deliver substantial revenue savings over this 10 year term which ends in 2025.

2.2 To enable Active Nation to deliver these substantial revenue savings, Executive were presented with a business plan. At this Executive, Members agreed to the principle that a capital injection into Yarborough Leisure Centre of between £1 million and £1.2 million to allow improvements and changes to be made in order to realise the projected revenue savings.

2.3 Active Nation have presented their more detailed recommendations for capital improvements to Yarborough Leisure Centre. Officers of the City Council have agreed the changes as being in line with the Business Plan proposals and confirmed that the maximum contribution to these from the Council would be £1m.

2.4 Under the previous and newly extended contractual agreement with Active Nation the external fabric of the building and fixed plant was always and still remains the responsibility of the City Council. It is therefore proposed that the City Council make available further funds up to a maximum value of £200,000 to enable essential enhancements to be made to the roof of the swimming pool and internal ventilation systems serving the dry side changing rooms.

It is proposed that both the improvement works mentioned in 2.3 and these enhancement works are undertaken at the same time to reduce any disruption to the customers of Yarborough Leisure Centre and to minimise costs of the works for all parties.
3. **Background**

3.1 In May 2004 the City Council agreed a 12 year contract with Active Nation to manage Yarborough Leisure Centre. This contract was due to end on the 9th May 2016.

3.2 As part of the fundamental review under the ‘Towards Financial Sustainability programme’ officers negotiated a much improved contract with Active Nation which greatly reduced our revenue payments to them over the newly extended 10 year period. As a consequence of this new agreement the City Council will deliver savings of over £500,000 per annum from 2017.

3.3 During the November 25th Executive, Members were presented with a business case outlining the detail of these revenue savings as well as explaining the need for a capital injection into the leisure centre. The capital injection was deemed necessary to enable Active Nation to increase its customer base, and by so doing, increase its income and therefore achieve those significant contractual savings to the Council.

3.4 At the time this business case was presented to Executive, the more detailed works necessary to ascertain the exact needs and costs of any capital improvements had not been worked out.

4. **Main Body of Report**

4.1 Since November 2013 officers of the City Council have been involved in detailed negotiations with Active Nation and have agreed in principle to an exciting list of improvements to the building which will greatly enhance the customer experience. These improvements include the redevelopment of the existing 3 squash courts into a new state of the art fitness suite which will be on two levels. The existing fitness room will become a facility for more exercise classes. The fitness changing rooms will be refurbished and the main entrance/reception area will be remodelled to better cope with the increasing number of customers using the centre. Selected areas of the wet side changing room will be improved and the building will undergo a general refresh. (please see appendix 1)

4.2 With regards the need to undertake essential capital maintenance and enhancements to an estimated value of £200,000.

For some time Active Nation have been experiencing increasing problems with portions of the pool roof leaking into the building during periods of heavy rain. Fortunately this problem has been somewhat hidden in recent months due to a spell of unusually dry weather.

The City Council are contractually responsible for ensuring that the fabric of the building is in working order and fit for purpose. The replacement of the roof is therefore becoming increasingly essential. If the roof is left to leak and those leaks become worse the City Council opens itself up to the possibility of financial penalties. These financial penalties could be claimed by Active Nation if they could prove a loss of income if any areas below the leaks had to be closed because of water ingress.
4.3 The requested £200,000 budget for enhancements would also be used to upgrade the ventilation system in the dryside changing rooms. Like the roof, these works are contractually the responsibility of the City Council and are estimated at a cost of between £15,000 and £20,000.

4.4 The £1,000,000 improvement works and the £200,000 enhancement works would be undertaken at the same time to avoid any further disruption to the services provided by Yarborough Leisure Centre and Active Nation and to minimise costs.

5. **Strategic Priorities**

5.1 Growing the local economy
The proposed investment in Yarborough Leisure Centre will improve and sustain job prospects with Active Nation in Lincoln. This investment will enable the Leisure Centre to cope with a greater number of customers and guarantee this building will be functional for many more years into the future.

5.2 Protecting the poorest people in Lincoln
By extending our contract with Active Nation and by undertaking physical improvements to the building, Active nation will be able to continue to provide a subsidised pay and play service to the poorest people of Lincoln.

6. **Organisational Impacts**

6.1 Finance (including whole life costs where applicable)

**Capital**

The total capital budget required for the improvement works to Yarborough Leisure Centre is £1,200,000. This requirement exceeds the current available resources within the General Investment Programme and therefore it is proposed to fund this scheme through Prudential Borrowing.

The proposed borrowing would be added to the Capital Financing Requirement (CFR) and will not breach the Authorised Limit.

**Revenue**

The business case in the 25th November 2013 Executive report recommended that the cost of borrowing be set aside from the savings, as follows:-

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Borrowing Costs £</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>144,000</td>
</tr>
<tr>
<td>2015/16</td>
<td>163,200</td>
</tr>
<tr>
<td>2016/17</td>
<td>158,400</td>
</tr>
<tr>
<td>2017/18</td>
<td>153,600</td>
</tr>
<tr>
<td>2018/19</td>
<td>153,600</td>
</tr>
</tbody>
</table>

The above borrowing costs were factored into the 2014/15 to 2018/19 Medium
Term Financial Strategy.

The actual borrowing costs over the term of the Medium Term Financial Strategy have been estimated as follows:-

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Borrowing Costs £</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>19,260</td>
</tr>
<tr>
<td>2015/16</td>
<td>156,594</td>
</tr>
<tr>
<td>2016/17</td>
<td>152,742</td>
</tr>
<tr>
<td>2017/18</td>
<td>148,890</td>
</tr>
<tr>
<td>2018/19</td>
<td>145,038</td>
</tr>
</tbody>
</table>

It is proposed that the in year savings from the borrowing costs are to be retained for any future repair and maintenance works required at Yarborough Leisure Centre.

7. Risk Implications

7.1 (i) Options Explored

Do not undertake these capital works

The Council would not have gained from the much improved contract with active Nation if it were not for the promise of substantial capital improvements to Yarborough Leisure Centre.

7.2 (ii) Key risks associated with the preferred approach

There is a risk that any expected spend on this facility could increase during the period of the works given that the building is old and we do not have a full set of plans and records for the building.

The contract for these works will be a design and build contract. This greatly reduces such financial risk to the Council. Officers will carefully monitor progress and necessary changes will be made to the specification of the works to keep it at the appropriate budgetary level.

8. Recommendation

8.1 Executive accept the recommendations of officers and agree to the budget of £1,000,000 (one million pounds) to be spent on improvements to the Yarborough Leisure Centre to be funded through Prudential Borrowing.

8.2 Executive accept the recommendation of officers to approve enhancement works to Yarborough Leisure centre at a value of no more then £200,000 (two hundred thousand pounds) to be funded through Prudential Borrowing.

8.3 The savings from any borrowing costs are retained for any future repair and maintenance works required at Yarborough Leisure Centre.

8.4 The above schemes are added to the General Investment Programme in 2014/15
subject to the appropriate Lincoln Project Management paperwork being submitted to the Strategic Plan Implementation Team.

**Is this a key decision?**  Yes

**Do the exempt information categories apply?**  No

**Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?**  No

**How many appendices does the report contain?**  One (Appendix 1 which will be presented in 5 parts)

**List of Background Papers:**  None