

This report will be made public on 16 January 2007

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/06/108**

To: Cabinet
Date: 24 January 2007
Status: Non-Key Decision
Responsible Officer: Keith Cane
Responsible Portfolio Holder: Councillor Mrs C J Waters, District Secretary for Leisure and Tourism

Subject: SHEPWAY LEISURE PFI

SUMMARY: Following consideration of Report C/06/99 on 20 December 2006, Cabinet accepted the conclusions of the Stage 1 affordability report produced by Tribal Consulting. The report concluded that there is a shortfall of around £3.5m in capital terms, and of more than £330k per annum in revenue terms. A number of options to address this affordability gap were put forward for consideration in the report and these were discussed by the partnership at the PFI steering group on 19 December 2006. These options have now been developed in consultation with the partners by Tribal as Stage 2 of their work and incorporated in the revised business case.

The business case demonstrates that the project is now viable and deliverable under the PFI/DBOM method of delivery. The business case will be presented to the PFI steering group on 23 January 2007.

A verbal report on the content of the business case will be given to Cabinet at its meeting on 24 January 2007.

Following consideration of Report A/06/12, on 13 December 2006, Council approved the release of additional monies to enable the project to proceed to financial close subject to Hythe Town Council being prepared to enter into a binding commitment to accept a centre with a reduced facility mix (if necessary) on the site of the South Road Recreation Ground currently identified for the location of the leisure centre. A recommendation which confirms this commitment will be placed before the Town Council at its meeting on 18 January 2007.

At a meeting of the Town Council on 21 December 2006, the initial findings of the Stage 1 affordability report produced by Tribal were welcomed and supported subject to written guarantees' being provided by Shepway District Council. The written guarantees are discussed further in Section 3 of this report and suggested responses are included as recommendations.

REASONS FOR RECOMMENDATION:

Cabinet is asked to agree the recommendations set out below because:-

- a) Stages 1 and 2 of the consultants work are now complete and the outputs form part the business case,
- b) The DCMS require the submission of a revised business case by 31 January 2007,
- c) Hythe Town Council require a written commitment from Shepway District Council which will endorse their own binding commitment,
- d) The Council is committed to improving the district's sporting facilities for the next thirty years and beyond. The provision of improved opportunities for sport, leisure and culture, including leisure facilities which are modern, clean and accessible to all is one of the Council's strategic priorities.

RECOMMENDATIONS:

1. To receive and note Report C/06/108.
2. To accept the conclusions of the Stage 2 affordability report produced by Tribal Consulting.
3. Following receipt of bids, to accept that it may be necessary to review the facility mix (positively or negatively). If such a review is required, it will take place in full consultation with the project partners.
4. In relation to the Hythe DBOM:-
 - a) to agree to the base facility mix, with a commitment to include sufficient dry changing facilities to serve the outdoor pitches.
 - b) to commit to providing the necessary funding (minus the Hythe TC contribution of £170,000) to support the scheme. This is estimated to be c£7m in the Stage 1 Tribal report.
 - c) to underwrite and financially commit to both the capital and revenue affordability gaps identified in the Stage 2 report and the business case, for the lifetime of the lease, to a maximum of 15 years as recommended by Tribal.
 - d) to accept that the Council will use its best endeavours to maximise the capital receipt on the existing swimming pool site in order to maximise the site's value and all proceeds from the sale of the site to be devoted to the Hythe project.
5. To approve the revised business case and agree that it can be submitted to the DCMS.

1. INTRODUCTION

- 1.1 Tribal Consulting was appointed to carry out Stage 1 of the affordability analysis on 27 November 2006. Tribal's representative, Paul Kelly presented a report to the PFI Steering Group on 19 December 2006. The conclusions of the report were tabled at the Cabinet meeting on 20 December 2006 and the report was accepted.
- 1.2 At its meeting on 18 January 2007, a recommendation will be placed before Hythe Town Council to enter into a binding commitment to accept a reduced facility mix (as identified by Tribal Consulting in the Stage 1 report) on the current South Road site. The Town Council has requested that Shepway District Council provide written guarantees pertaining to project financing (refer to Section 4 of this report).
- 1.3 Stage 2 was completed by mid-January 2007 and the detail will be presented to the partners on 17 January 2007 and to the Steering Group

on 23 January 2007. The output from the report forms the basis of the revised business case.

2. CONSULTANT'S REPORT

2.1 The brief to Tribal Consulting for Stage 2 of their work was to:

- (i) Work with stakeholders to revise the scope and cost of the scheme to ensure affordability. To confirm that the revised project is viable and deliverable and would continue to meet DCMS requirements.
- (ii) Produce a revised financial model using Tribal's template for the outline business case, including a shadow PFI model and operational model.
- (iii) Assist with the preparation of the revised business case including an FRS5 report, value for money assessment, draft output specification and payment mechanism.
- (iv) Provide a report on the preferred delivery model, procurement route and financing of the project, including the use of enabling land development.

2.2 The conclusions from Stage 2 demonstrate that the project is now viable and deliverable based upon the following key changes from the June 2006 business case:

- (i) The project is now deliverable via the PFI model for Folkestone and the DBOM model for Hythe. This is the preferred method of delivery for both the partnership and the DCMS.
- (ii) The four court sports hall at Hythe is removed from the scheme. The reduced facility at Hythe is accepted by the partners.
- (iii) The Radnor Park pavilion which will service the outdoor facilities (golf, tennis, five aside, ski and skate boarding) is reduced in size and scope. The reduced facility at Folkestone is accepted by the partners.
- (iv) The ongoing role of the Trust is now established. The existing Trust will reform as a grant aiding Trust, which will operate separately from a newly formed Trust which will be linked to the private sector operator but will have no direct day to day management role.
- (v) The DCMS commits to additional PFI credits of 20% of the original allocation.

- (vi) The Council commits to identifying sufficient resources to bridge the remaining affordability gap. At its meeting on 20 December 2006 Cabinet agreed to meet the then affordability gap of c£1.58m (capital) and c£178,000 per annum (revenue) that was predicted to remain, subject to the commitment of Hythe Town Council entering into the binding commitment as stated.

2.3 The findings from Stage 2 are included in the business case, which is due to be submitted to the DCMS by 31 January 2007.

3. BUSINESS CASE

3.1 The content of the draft business case will be presented separately to Hythe Town Council and to Folkestone Sports Centre Trust and jointly with the Council to the PFI Steering Group meeting on 23 January 2007. The comments of the partners will be conveyed to Cabinet on 24 January 2007.

3.2 The content and conclusions of the business case will be presented to Cabinet on 24 January 2007.

4. HYTHE TOWN COUNCIL

4.1 At a meeting of the Town Council on 21 December 2006, the following recommendations were unanimously agreed. That:

The Town Council welcomes the initial findings as presented by the enclosed interim Tribal report and it supports the proposals embodied in the report, subject to the following written guarantees' being provided by Shepway DC :

(i) The facility mix to remain as per this report, with a commitment being made to the enhancement of the dry changing facilities, as a prime requisite for the Town Council's endorsement of the project. This enhancement to reflect the importance to Hythe of quality recreation ground sports facilities on its recreation ground for its townspeople and to its validating of SEEDA Project No 24.

(ii) The District Council to commit £7m capital to the Hythe facility.

(iii) In addition, the District Council to provide a written undertaking to underwrite and financially commit to both the capital "affordability gap" for Hythe, currently estimated at £1,580m and to the revenue gap, currently estimated at £178,000 per annum, for the lifetime of the lease, to a maximum of 15 years as recommended by Tribal.

(iv) The District Valuer to be requested to provide an opinion on the disposal of the Town Council's land for less than market value, given the reduced circumstances of the project.

(v) *The above endorsements to be subject to the outcome of the current Town Green application.*

(vi) *The District Council shall use its best endeavours to maximise the capital receipt on the existing swimming pool site in order to maximise the site's value and all proceeds from the sale of this site to be devoted to the Hythe project.*

(vii) *The Heads of Terms Agreement to incorporate the above factors.*

4.2 The Chief Executive wrote to the Town Clerk on 28 December 2007 outlining his thoughts on the recommendations and these were discussed in detail at a meeting between the Steering Group members from Hythe Town Council and Shepway District Council on 4 January 2007. Proposed responses have been incorporated within the recommendations contained within this report.

5. CONCLUSION

5.1 The business case produced by the PFI Project Team in conjunction with the Council's consultant, Tribal Consulting, demonstrates that the project is now viable and deliverable. Subject to Cabinet approval, this document will be submitted to the DCMS in accordance with its deadline of 31 January 2007.

6. RISK MANAGEMENT ISSUES

6.1 A summary of the perceived risks is shown below:

Perceived risk	Seriousness	Likelihood	Preventive action
31 January 2007 deadline is not met	Medium	Low	Amendments resulting from both Cabinet and partner discussions to be incorporated forthwith
The Council is unable to identify sources of funding to meet the revenue and/or capital affordability gap	High	Low	Revenue budget requirement will be brought into Medium Term Financial Strategy and all avenues are being explored at an early stage to ensure capital resources can be made available

DCMS do not approve the business case	High	Low	All DCMS requirements are addressed in the business case.
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6.2 Cabinet should note that there is a detailed risk register for this project, which contains all of the perceived risks relating to the project in its entirety.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer's comments (TG)

There are no legal implications arising from this report that have not already been taken into consideration in this report.

7.2 Finance Officer's comments (CS)

The Council has already committed towards a unitary charge (annual revenue contribution) of £438,000. The Stage 1 cost analysis of the revised scheme identified additional revenue contributions as being required in order to close the funding gap. These costs will be more accurately assessed through the Stage 2 work (Business Case), but were anticipated to be in the region of £216,000 for the two sites. The additional revenue contribution that will be required to close the funding gap (as identified in the business case) will be included within the review of the Councils Medium Term Financial Strategy. This will ensure that the impact of the scheme is taken into account when the Council must decide on the allocation of its future resources.

At its meeting on 20 December, Cabinet agreed to identify sufficient resources to bridge the projected affordability gap of capital resources, projected to be £1.58m (Report C/06/99 Minute 119). Alternative options are currently being explored in order to secure the funding required.

7.3 Diversities and equalities implications (KC)

The provision of improved opportunities for sport, leisure and culture, including leisure facilities which are modern and clean and accessible to all is one of the Council's current strategic priorities.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

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