

Cheltenham Borough Council

Cabinet 5 December 2017

Council 11 December 2017

Revised financing arrangements for improvements to Leisure-at-Cheltenham

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| Accountable member | Cllr. Flo Clucas; Cabinet Member Healthy Lifestyles |
| Accountable officer | Mark Sheldon, Director Resources and Corporate Project |
| Ward(s) affected | All |
| Key/Significant Decision | Yes |
| Executive summary | <p>Council on 27 March 2017 gave approval to lend The Cheltenham Trust up to £1.5m to fund a range of improvements to Leisure-at-Cheltenham. The loan was to be at an interest rate of 3% per annum. The proposed works were as follows:</p> <ul style="list-style-type: none">• Convert two existing squash courts into new studios to enable an increase in the number of class and activity programmes.• Upgrade the existing dry-side changing spaces to reflect the quality of offer that customers expect and that competes well with the local market.• The provision of a new sauna and steam room suite adjacent to the new changing rooms, strengthening the link with health and fitness and replacing the outdated existing health suite facilities.• Extend the existing fitness suite on the ground floor into the current dance studio enabling an increased capacity to meet demand and enable improved functional training space and health support related activities.• Conversion of the existing health suite into an aquatics play space, developing and extending the aquatics opportunities for families with young children and also the commercial hires for children's birthday parties. <p>Following on from the Council decision, the Trust worked with its development partner Alliance Leisure Services (ALS) to advance the scheme within the agreed financial framework. After much deliberation, it has been concluded that this is not possible. A summary of the reasons for this cost increase are provided in section 2</p> <p>Part of the reason for the cost increase is that the suite of capital works that would be delivered through the partnership with Alliance Leisure Services has been revised. This includes the original elements included in the March council report but also now includes improvements to the reception and entry arrangements, plus improvements to the swimming changing facilities (funded by a grant from Sport England) and improvements to the air conditioning (funded by CBC). Details of the updated capital works are set out in section 3.</p> |

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| | <p>In terms of the revised capital costs, there is now cost certainty of build and equipment costs of £1.658m excluding the aquatics play-space which is estimated to cost £731k that will be confirmed at the date of this report to Council. In addition, provision has been made for client contingency and client support costs, giving total estimated scheme costs of £2.554m. Once grant funding and other contributions are taken into account, the revised funding requirement is £2.236m. This is the maximum figure that is being considered. Further details of the costs of the scheme are provided in section 4 and exempt appendices 1 and 2.</p> <p>Council is also asked to consider a revised approach to managing the financing and project management of the scheme which will entail the Council contracting direct with Alliance Leisure Services who will then deliver the project on behalf of the Council as asset owner. Further details of the procurement and contractual arrangements for the project are provided in section 5.</p> <p>Given the size of the project, the council is putting robust plans in place to ensure that there is effective project governance in place via the Joint Commissioning Group, and effective project management arrangements in place via the contract with Alliance Leisure Services which will be further enhanced through additional client-side resources to support staff members in the Property Services team. Details of project governance and management arrangements are provided in section 6.</p> <p>Given the increase in costs, and the revised approach for managing the project, this report is brought back to Cabinet / Council to seek approval.</p> |
| <p>Recommendations</p> | <p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Approve the revised programme of improvements to Leisure-at-Cheltenham as set out in section 3 of this report. <p>That Cabinet recommends to Council that:</p> <ol style="list-style-type: none"> 1 Subject to the conditions in section 7 being met, the Section 151 Officer be authorised, in consultation with the Cabinet Member Finance, to seek prudential borrowing of up to £2.236m at an interest rate of 2% per annum to fund the improvements to Leisure-at-Cheltenham as detailed in Section 3 of this report; 2 The Section 151 Officer be authorised, in consultation with the Cabinet Member Healthy Lifestyles, to agree the most advantageous repayment methodology to reclaim the cost of the borrowing from the Cheltenham Trust; 3 The Director Resources and Corporate Projects be authorised, in consultation with the Cabinet Member Healthy Lifestyles and the Borough Solicitor to enter into a contract with Alliance Leisure Services and any other legal agreements and processes necessary to progress the scheme whilst safeguarding the Council’s interest. |

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| <p>Financial implications</p> | <p>The financial business case demonstrates a surplus of £1.291m (average 3.61% rate of return) to The Cheltenham Trust over a period of 15 years, after allowing for funding repayments to the council. The proposed repayments will be made by the Cheltenham Trust to the Council over a period of 15 years, commencing 1st April 2019.</p> <p>The predicted surplus is based on growth in income projections from the capital scheme, based on current and future expected income trends. If this income growth is not achieved, or if annual running costs are higher than estimated, there is a risk that the accumulated surplus may be reduced, with a possible impact on the affordability of the repayments by The Cheltenham Trust to the council.</p> <p>Full details of the capital scheme costs and the financial business case are included in the exempt appendices 2 and 3 to this report.</p> <p>Contact officer: Sarah Didcote GO Shared Services Finance Manager <u>Sarah.Didcote@cheltenham.gov.uk</u> 01242 264125</p> |
| <p>Legal implications</p> | <p>CBC is intending to engage Alliance Leisure Services Limited (ALS) to provide Development Management Services from a framework agreement established by Denbighshire County Council. Properly established framework agreements are compliant with the Public Contract Regulations 2015 and this framework allows for the award of a contract to ALS without the need for a procurement exercise.</p> <p>ALS's roles and responsibilities will be set out in a 'call-off agreement' which will be entered into between ALS and CBC. The terms of the call-off agreement are contained in the framework agreement and legal advice has been given to officers on those terms. A project specific call-off agreement will be required to be entered into before work can commence on site.</p> <p>ALS will not be carrying out the designs or building work itself. Instead, ALS will be sourcing the services of certain professionals and the build contractors and it will be ALS that enters into the relevant contracts, including a JCT (Joint Contracts Tribunal) Design and Build Contract. CBC will be paying for the cost of the works through the call-off contract, together with ALS's fee for its development management services.</p> <p>CBC's contractual relationship with these professionals and contractors will be by way of collateral warranties which will enable CBC to take action under the terms of the building contract should there be problems with the works carried out. It is important that CBC and One Legal is able to review and input into the terms of the JCT and the collateral warranties.</p> <p>Additional legal implications are set out in the property and financial implications of this report.</p> <p>Contact officer: Donna Ruck, Solicitor, One Legal Tel: 01684 272696 <u>Donna.ruck@tewkesbury.gov.uk</u></p> |

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| HR implications (including learning and organisational development) | <p>CBC staffing resources available to oversee this project have been reviewed and an additional resource will be funded via the funding arrangement to support staff in the Property Services Team.</p> |
| Property/Asset Implications | <p>Leisure@ Cheltenham is currently leased to the Trust on a 15 year term starting on October 2014.</p> <p>As the council is undertaking the work, we need to enter into arrangements with the Trust to bring clarity to two issues:</p> <ol style="list-style-type: none"> 1. Who will own the equipment and take on the responsibility of any additional maintenance costs. 2. The Council needs the Trust's permission to enter on to their premises and undertake the works <p>The Property Team will review the management agreement and lease with One Legal to document the agreed position with the Trust in relation to the above two points.</p> <p>In terms of safeguarding the asset, the council will ensure that all detailed designs (RIBA stage 4) are approved in the first instance by the Council's Senior Property Surveyor.</p> <p>To support the Senior Property Surveyor, CBC will make provision for representation to be on-site for each day of the to report to JCG/Project Team that the specification is being adhered too and workmanship is up to standard. A sum of £30k has been included in the capital budget to fund this.</p> <p>Although equipment replacement has been factored into the business plan, officers are aware that there could be an increase in both maintenance costs and energy use costs that will fall on the Council. The Senior Property Surveyor will work with the Trust and ALS to analyse these impacts that will then be reported to the project team / Joint Commissioning Group as appropriate.</p> <p><u>Contact officers:</u></p> <p>Abigail Marshall Estates Surveyor Abigail.Marshall@cheltenham.gov.uk 01242 775166</p> <p>Garrie Dowling-Burrage Senior Property Surveyor garrie.dowling@cheltenham.gov.uk 01242 264394</p> |

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| <p>Key risks</p> | <p>There are two key areas of risk for the council:</p> <p>The Council is proposing to fund the capital improvements and seek repayment from the Trust which will be unsecured because the Trust does not itself own any land or buildings. This is a risk to the council because in the event of default on the loan, there will be no property that CBC can repossess. This is a risk that CBC has taken at least once before with other external organisations operating from within council owned buildings. The Council owes a fiduciary duty to its council tax payers to ensure that the business case is sound so that it can be sure that the Trust can afford repayments.</p> <p>Secondly, the term of the repayment arrangement is 15 years, and there is less than 7 years of the certain term of the management agreement with the Trust remaining. If the Council were not to extend the management agreement and as a result if the Trust needed to wind itself up, it must clear all its debts. If it cannot repay the repayment arrangement, the council would need to seize any assets of value and potentially write off any remaining repayments.</p> <p>In mitigation against these two risks, as CBC owns the building, the loan will be spent on improving its asset and the works may add value to it and to CBC's financial position.</p> |
| <p>Corporate and community plan Implications</p> | <p>Successful delivery of the project by the Cheltenham Trust will help the council deliver its corporate strategy outcome:</p> <ul style="list-style-type: none"> • People live in strong, safe and healthy communities |
| <p>Environmental and climate change implications</p> | <p>The range of improvements to Leisure-at-Cheltenham will be built in accordance with the environmental specifications set out in the latest building regulations.</p> |

1. Background

- 1.1 The Cheltenham Trust was established as a consequence of a commissioning review into how best the Council could continue to support the delivery of its leisure and cultural services, and the management of five properties (The Wilson, Town Hall, Pittville Pump Room, Leisure at Cheltenham, Prince of Wales Stadium) whilst delivering best value to the taxpayer.
- 1.2 The Trust went live in October 2014 and is in receipt of a declining management fee from the Council:

| Year | 2014 15 | 2015 16 | 2016 17 | 2017 18 | 2018 19 | Total |
|----------------|---------|---------|---------|---------|---------|---------|
| Management Fee | £1,666k | £968k | £764k | £648k | £641k | |
| Net reduction | £0 | -£698 | -£204 | -£116 | -£7 | -£1,025 |

- 1.3 Leisure-at-Cheltenham is currently leased to the Trust on a 15 year term that started on October 2014. It hosts over 570,000 visits per year and offers a wide range of facilities to a broad customer base. Customers come to the facilities from Cheltenham and surrounding areas and its regional and national competition events attract people from all over the UK.
- 1.4 The Council has encouraged the Trust to develop a vision for the Leisure-at and Prince of Wales stadium.
- 1.5 The Trust has subsequently come back with their vision for Leisure-at. This is:
To develop a hub within the town that encourages public participation in diverse experiences that touch and inspire people be it through sport, culture, play, competition, heritage, learning, health and wellbeing. The ambition is to put Cheltenham at the forefront nationally, creating a unique place that contributes to the social, cultural and economic value of the town and enriching the lives of residents and visitors.
- 1.6 In March 2016 the Cheltenham Trust commissioned an initial feasibility study and developed a two-phase approach to creating a hub at Leisure-at-Cheltenham. The proposals were presented to the Council in the autumn of 2016 and the first phase element was endorsed as a robust first step to delivering the broader vision. The second phase included works to re-orientate the entrance and reception along with the provision of a large adventure play facility and it was agreed not to progress these at this point.
- 1.7 These first phase proposals were worked up, and were then brought to Council in March 2017 to agree the proposed works and the financing arrangements, which was to be a 10 year loan of up to £1.5m granted to the Trust which would have been repaid at 3% per annum.

2. Development of the scheme

- 2.1 Following on from the March Council decision, the Trust worked with its development partner Alliance Leisure Services to advance the scheme within the agreed financial framework.
- 2.2 After work to further define the project, it was clear that project costs would be higher, but that these would be mitigated by a greater impact for customers and increases in income against a revised business plan.
- 2.3 In addition, this preliminary work has helped shape how the project will be procured and managed.
- 2.4 The original model presented to the council in March 2017 was based on the Trust delivering the project through a loan from the council. This method for project delivery would have incurred VAT which meant that fewer improvements would have been delivered.

2.5 A preferred method is now proposed whereby the council contract Alliance Leisure Services directly, and by doing so the VAT is recoverable, and the project will deliver greater public benefit for the cost incurred. TCT will benefit from increased income from this investment in order to deliver the outcomes. CBC will take out the loan directly and TCT will repay the funding stream by arrangement with CBC.

2.6 In summary, the period between the March 2017 report and this revised report has provided:

- Cost certainty on the main project;
- Further investigations around ground conditions to fully inform the Splash Pad delivery and to provide cost certainty for the revised report;
- Reviewing the business plan showing the impact of recoverable VAT;
- Reviewing the project to include the entry system;
- Reviewing the project to combine the phase 1 project with other capital works that are being funded from elsewhere.

2.7 The benefits are:

- That cost certainty will be in place before the commencement of the project and signing of the contract with Alliance Leisure Service;
- Confidence about the new framework arrangement and contract type;
- Confidence around risk management;
- Confidence around CBC resources, delivery and monitoring;
- Confidence around change controls, the use of the Joint Commissioning Group as the governance group to limit and monitor change;
- Confidence around the quality of the project and the expectations around quality;
- Confidence around Value for Money and deliverables;
- Confidence around the partnership between the Council, the Trust and Alliance Leisure Services.

3. Details of the revised proposal

3.1 The original improvements March 2017 set out in the Council Report were as follows:

- Convert two existing squash courts into new studios to enable an increase in the number of class and activity programmes.
- Upgrade the existing dry-side changing spaces to reflect the quality of offer that customers expect and that competes well with the local market.
- The provision of a new sauna and steam room suite adjacent to the new changing rooms, strengthening the link with health and fitness and replacing the existing health suite facilities. (This was necessary as the aquatics play space would have replaced the existing health suite)
- Extend the existing fitness suite on the ground floor into the current dance studio enabling an increased capacity to meet demand and enable improved functional training space and health support related activities.
- Conversion of the existing health suite into an aquatics play space, developing and extending the aquatics opportunities for families with young children and also the commercial hires for children's birthday parties (now superseded)

- 3.2** The additional proposals/changes to be funded via the arrangement with CBC and relevant to this report, build on the items in section 3.1:
- Retention of the existing health suite and its associated income streams to further support the business plan (instead of replacement as stated in Section 3.1, the original health suite will now be retained as the aquatics play space has been moved to a different location and will not impact on the health suite)
 - Improved reception and access controls to the facilities and services to ensure that all users are paying users to underpin the business plan
 - Conversion of one teaching pool group change space into the splash pad (aquatics play space), this allows for greater harmony to the existing pool space, ease of access and flow of people. Structural and mechanical implications are less significant compared to the original plan.
- 3.3** In addition, there are other capital works that are being funded from elsewhere that will be included as part of the contract with Alliance Leisure Services:
- 3.4** Swim local; The Trust led a bid to Sport England which comprised two elements, a revenue grant request of £150,981 to fund improvements to the visibility and relevance of the swimming experience and the range of programmes that are on offer. A capital grant request of £184,480 to fund the creation of new disabled changing units and improvements to the female changing area. This grant has now been accepted by Cheltenham Borough Council and the capital works will be included as part of the contract with Alliance Leisure Services.
- 3.5** Air conditioning; the Council has already made a financial commitment of £85,000 to upgrade the air conditioning system. Again, these works will now be included as part of the contract with Alliance Leisure Services.

4. Revised capital costs and business plan assessment

- 4.1** There is now cost certainty of costs of £1.658m excluding the aquatics play space which is estimated to cost £731k will be confirmed at the date of this report to Council, and also excluding client support/contingency at £135k and client support at £30k. The total capital cost of the scheme is therefore £2.554m, subject to cost certainty over the splash pad build and equipment. Full details of this capital cost and secured funding are shown in exempt appendix 2 to this report.
- 4.2** Funding totalling £318k has been secured towards the cost of the scheme, leaving a net funding requirement of £2.236m. Council is asked to consider that this funding is acquired by way of PWLB loans to the council, at an average interest rate of 2% per annum. The loans will be taken out over a period of 7, 10 and 15 years, in accordance with the estimated useful life of the new equipment and building works.
- 4.3** The Cheltenham Trust will repay the council the funding over a period of 15 years, commencing 1st April 2019. The financial business case included in exempt appendix 3 details the expected annual surplus to be retained by the Trust, after allowing for these funding repayments. This demonstrates an accumulated return to the Trust of £1.291m over the period, with an average rate of return of 3.61%. Once grant funding and other contributions are taken into account, the new funding requirement is £2.236m. This is the maximum figure that is being considered.
- 4.4** These repayments are affordable by The Trust, subject to the achievement of the forecast additional income and the estimated additional expenditure not being exceeded. There is a risk, as with all financing arrangements, that should these targets not be achieved there may be an impact on the affordability of the repayments. However, this is mitigated by a review of current income trends and market comparisons, undertaken by the Trust and Alliance Leisure Services. Full details of this income and expenditure of the project are shown in exempt appendix 4 to this report

4.5 The revenue forecast is based on a range of assumptions including:

- Membership income is based on a growth of 625 members or 22% over the term, growth since October 2014 has been 35% therefore the anticipated levels are believed achievable. This is the medium case scenario with sensitivity being completed at 10% variable on income either way.
- Income grows at a moderate level across the term linked to pricing /inflation
- Squash retains 80% of income through fully utilising capacity in the remaining courts
- Splash pad utilisation rates are based on term time v holiday time attendance levels
- CBC funding payments shown as full cost from 2019/20
- Additional food and beverage spend estimated at 10p per user on new attendances and 50p in café spend
- Staff costs for new role based on UK Living wage at £8.45 from April 2017
- Prudent assumption of achieving a recovery of £40k income linked to improved access controls.

5. Procurement and contractual arrangements

- 5.1 Council is also asked to consider a revised approach to managing the financing and project management of the scheme which will entail the Council contracting direct with Alliance Leisure Services (ALS) and who will then deliver the project on behalf of the Council. It will be ALS that contract with the construction company, not CBC. In this regard, Alliance Leisure Services will be a development partner of the Council.
- 5.2 In terms of procurement, Alliance Leisure Services has been procured through the Denbighshire Access Agreement and Framework Contract. This is a 4-year Development Framework that Denbighshire County Council procured after extensive tendering process to demonstrate value for money that complied with OJEU rules. The access framework is available to all Public Sector organisations and utilises JCT or NEC construction contracts.
- 5.3 Under the framework agreement, ALS undertake initial scoping work at risk and work up a feasibility study to determine affordability. Once the final scope of the project is determined by the client, ALS come back with a cost certainty proposal and the client then enters into a call off contract with ALS.
- 5.4 This method of procuring capital works using the development partner route reflects the fact that local councils have decreasing resources to manage larger capital projects and enables councils to:
- Reduce the impact on internal resources in local authorities
 - Obtain cost certainty at the beginning of the contract which is adhered to – cost certainty means cost certainty
 - Gain clarity on what is being delivered as a result of the upfront testing, design and detail prior to signing a contract to provide cost certainty
 - Create best value for local authorities through market costing before the contract is signed and holding to prices throughout the project
 - Transfer the project management and contract management to a readymade team who are experienced in particular areas of work
 - Transfer the financial risk to the partner (Alliance Leisure Services), to protect local authorities from cost over-runs during and/or at the end of the project.

6. Project governance and day to day management

6.1 In terms of project governance, the project will be co-sponsored project between The Cheltenham Trust and Cheltenham Borough Council with strategic oversight being provided by the Joint Commissioning Group. The Joint Commissioning Group is the mechanism by which Cheltenham Borough Council and The Cheltenham Trust work together using a co-commissioning approach to deliver capital development projects relating to CBC owned and TCT managed venues.

6.2 Current membership of the Group is:

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| Cllr Flo Clucas | Cabinet Member, Cheltenham Borough Council |
| Jaki Meekings-Davis | Trustee, The Cheltenham Trust |
| Julie Finch | CEO, The Cheltenham Trust |
| Mark Sheldon | Director Resources and Corporate Projects, Cheltenham Borough Council |
| Stephen Petherick | Head of Commercial and Customer Services |
| Richard Gibson | Lead Commissioner for the Trust, Cheltenham Borough Council |
| Jackie Rigby | Programme Manager, Cheltenham Borough Council |
| Garrie Dowling | Senior Property Surveyor |

6.3 Scrutiny of the project will be via the Cheltenham Trust's Audit and Governance Committee and the Council's Overview and Scrutiny Committee.

6.4 In terms of project management, this will be undertaken in the following ways:

6.5 **Alliance Leisure Services** (ALS) will manage the project through to completion to an agreed cost and time, owning the risks on overspend and ensuring that adequate on the ground resources is available. The roles included in the contract encompass quantity surveyor skills, architect and project manager.

6.6 ALS will work through **Savernake Property Consultants** (SPC) to manage the project and a sum of £55k is included in the project costings. SPC will provide the following services.

6.7 At design development stage:

- Attend, chair and contribute to design team meetings as appropriate
- Prepare and distribute minutes to meetings
- Co-ordinate design development process and monitor works complete to Gateway Review
- Develop Risk Register
- Monitor and review programme and update as necessary
- Develop Employer's Requirements in conjunction with the Contractor
- Establish checking / approval procedure for technical specification
- Attend additional meetings as necessary with technical representatives to agree specification
- Review outline proposals and indicative cost proposals as they develop and comment
- Design Team meeting attendance
- Negotiation with the contractor to facilitate the preparation of Contractor's proposals, including drawings, schedule of works and specification
- Preparation of building contract documentation
- Check and comment upon the Principal Contractor's Construction Phase Health and Safety Plan

6.8 At site operation stage, SPC will:

- Attend, chair and contribute to construction phase progress meetings on a monthly basis
- Attend monthly site visits to check progress / quality (On site every 2 weeks)
- Prepare and distribute minutes to meetings
- Monitor and review construction phase programme
- Check and report on quality of materials and workmanship on site including checking conformity

to contract documents

- Agree costs of variations and issue contract instructions
- Issue appropriate contract certificates
- Agree stage payments / valuations of works and issue appropriate notices
- Management of building budget and contract variations
- Monthly budget update
- Completion and handover of the works to include preparation of snagging list, approval of final build account and completion certification
- Certification of the retention (1.5% of building contract value to be withheld from the contractor for a period of 12 months from date of completion)

6.9 CBC will appoint a client-side advisor to support CBC's senior property surveyor in overseeing the works. A sum of £30k has been included in the capital budget to fund this. The advisor will be available on-site for a proposed 2 hours/days and will enable the speedy communication of any operational issues back to the Property Services Team. The advisor will report back to the JCG and CBC as necessary on a two weekly basis, attending key meetings, checking quality and quantities and to work with ALS and SPC to capture any exceptions or key risks. This advisor will also sit on the Project Team.

6.10 The Director Resources and Corporate Projects will be the responsible CBC officer for cost and quality delivery.

6.11 In addition, CBC will work with Stephen Petherick, Head of Commercial and Customer Services at the Trust, who will act as a senior user for the project. He will also attend the Project Team.

7. Suggested conditions for progressing the project

7.1 If council are minded to agree the financial framework, it is suggested that the project is progressed subject to the following conditions being met:

7.2 That the overall net funding requirement does not exceed £2.236m;

7.3 That the funding is only to be used in connection with the proposed improvement scheme as detailed in section 3;

7.4 That Cheltenham Borough Council and the Cheltenham Trust have agreed the terms of the 15 year repayment arrangement with the Council;

7.5 That Cheltenham Borough Council and the Cheltenham Trust have agreed the terms as to who will own the equipment and take on the responsibility of any additional maintenance costs and also gain agreement for the Council's contractors to enter on to their premises and undertake the works;

7.6 Subject to these conditions being met, the funding arrangement will then be agreed by the s.151 officer, in consultation with the Cabinet Member Finance.

8. Reasons for recommendations

8.1 The proposed improvement scheme and associated funding arrangements is being recommended for the following reasons:

- The sum will be repaid by the Trust in full over a 15 year period with repayments beginning in 2019/20.
- It will enable much needed investment into Leisure-at-Cheltenham, which is owned by the council and leased to the Trust. This will ensure the building remains an attractive leisure destination for

local residents within a competitive market.

- The investment will increase footfall and therefore income for the Trust.
- The improvement scheme will have direct benefits for local residents increasing their health and wellbeing
- The improvement scheme will support the work of 19 partners who deliver health and wellbeing related activities at Leisure-at.

9. Alternative options considered

9.1 The Council and the Trust have explored two other options:

9.2 DO NOTHING: Continue to maintain the existing facility to ensure it is fit for purpose within resources, in the knowledge that Leisure-at will not be able to meet the demand for business and customer expectations, with reducing appeal and subsequent declining retention and reputation with increased wear and tear on kit and facilities. There will be a negative impact upon economic viability of the business and the Trust. This option has therefore been dismissed.

9.3 COMMERCIAL FUNDING: The Cheltenham Trust could fully fund the capital investment programme without contribution by CBC through seeking a commercial loan. Although on the face of it, this would minimise the risk to the Council in that the Trust business activities would fund the repayments, the Council would need to act as a guarantor for the loan. That would mean assigning an equivalent sum in our reserves to fund this in case the Trust failed. In addition, the cost of the loan would have been higher at an estimated 5%. On advice from the s.151 officer, this option has been dismissed.

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| Report author | Contact officer: Richard Gibson Strategy and Engagement Manager Richard.gibson@cheltenham.gov.uk 01242 235 354 |
| Appendices | 1. Risk Assessment 2. EXEMPT – Capital costs 3. EXEMPT - Income and Expenditure |
| Background information | Report to Cabinet/Council “ <i>Financing arrangements for improvements to Leisure-at-Cheltenham</i> ” 7 March 2017 / 27 March 2017 |

Risk Management – Leisure-at Phase 1 Development – November 2017 – Key Strategic Risks

| The risk | | | Original risk score (impact x likelihood) | | | Managing risk | | | | |
|--|---------------|-------------|---|----------------|-------|---------------|---|------------------------|----------------------------------|------------------------------|
| Risk description | Risk Owner | Date raised | Impact 1-5 | Likelihood 1-6 | Score | Control | Action | Deadline | Responsible officer | Transferred to risk register |
| If the Trust defaults on the repayment, there will be no property that CBC can repossess. Therefore the Council owes a fiduciary duty to its council tax payers to ensure that the business case is sound. | s.151 officer | 20.2.17 | 3 | 3 | 9 | Accept | 1 Ensure that the business case is sound so that it can be sure that the repayments will made. | Feb 2017 | Sarah Didcote | |
| As the term of the loan is 15 years, and there is 7 years of the certain term of the management agreement with the Trust remaining, if the Council were not to extend the management agreement and as a result if the Trust needed to wind itself up the repayment agreement might not be fulfilled. | s.151 officer | 20.2.17 | 4 | 3 | 12 | Reduce | 1 The Council is working with the Trust to bring forward plans for an agreed management fee for the period April 2019 to October 2024. 2 The council would need to be in a position to seize any assets of value. and potentially write off any remaining repayments | Sept 2017 | Richard Gibson Donna Ruck | |
| Financial –if value for money against deliverables and finance option is not achieved, the project will not deliver the dividend described and will be seen as not being successful | Mark Sheldon | 17.11.17 | 3 | 3 | 9 | Reduce | 1. Ensure certainty in contract - costs and outcomes 2. Room data sheets which show project detail have been detailed and costed 3. Ensure legal framework represents cost and time certainty | 11.12.17 | Mark Sheldon | |
| Financial – if the project is not delivered on time this will affect the Cheltenham Trust’s ability to develop new income streams and undermine the funding payments to CBC against the PWLB loan and the income proposals in the Trust’s Business Plan | Mark Sheldon | 17.11.17 | 3 | 3 | 9 | Reduce | 1. Through the Joint Commissioning Group (JCG) ensure that the project is delivered to time and budget and manage a robust change control system with contractor | 31.5.18 | Mark Sheldon | |
| Financial – if the project costs rise as a result of unexpected site conditions, the overall project costs may exceed those that Council are being asked to approve | Mark Sheldon | 17.11.17 | 3 | 3 | 9 | Reduce | 1. CBC will hold a contingency provision to manage the risk of any other investigation requirements and findings | Throughout the project | Mark Sheldon | |
| Financial – if the Council fails to make a decision in December 2017, the costs of the project will rise each quarter at a rate of more than 1.5% per quarter | Mark Sheldon | 17.11.17 | 2 | 3 | 6 | Reduce | 1. Ensure that the Cabinet and Council report are supported 2. Ensure that Alliance Leisure provide the cost certainty figures by Council meeting 11.12.17 so that they can make an informed decision | 11.12.17 | Mark Sheldon | |

| The risk | | | Original risk score (impact x likelihood) | | | Managing risk | | | | |
|--|--------------|-------------|--|----------------|-------|---------------|---|------------------------|---------------------|------------------------------|
| Risk description | Risk Owner | Date raised | Impact 1-5 | Likelihood 1-6 | Score | Control | Action | Deadline | Responsible officer | Transferred to risk register |
| Financial - If the ownership and maintenance responsibilities are unclear then once the works are concluded it could risk the assets depreciating and deteriorating with no clear guidance as to who should be reacting to repair needs. This would put the hoped income generation at risk if areas need to close or do not function as expected. Ongoing day to day management and maintenance costs need to be captured in the Management agreement as well as the lease requiring these two documents being up to date to reflect the proposed works. Uncertainty could lead to loss of income | Mark Sheldon | 20.11.17 | 2 | 3 | 6 | Reduce | 1 This risk is mitigated as this is one of the conditions that need to be met before the works can progress | | Mark Sheldon | |
| Financial - If the Council do not agree in advance of Alliance (and their contractors) being on-site this puts the Council at risk of claims against it, from the Trust, for compensation for Disturbance. To bring this risk down – Property are meeting with One Legal representatives to review current arrangements, and consider the appropriate action to reduce this risk. | Mark Sheldon | 20.11.17 | 2 | 3 | 6 | Reduce | 1 This risk is mitigated as this is one of the conditions that need to be met before the works can progress | | Mark Sheldon | |
| Capacity – if the project management, monitoring and control capacity is not appropriate, the project will not be delivered to time and budget | Mark Sheldon | 17.11.17 | 3 | 3 | 9 | Reduce | 1. The Framework Agreement and Contract type provides for Project Management, QS and quality control within the contractor working to the client; this approach enables the contractor to take all the risk 2. Change controls mechanisms have been clarified as being robust and the JCG will exercise its role in ensuring cost certainty at all times | Throughout the project | Mark Sheldon | |
| Reputation – if the project fails to be delivered there is a risk to both CBC and TCT, the reputation of both organisations in delivering partnership projects will be damaged | Mark Sheldon | 17.11.17 | 4 | 3 | 12 | Reduce | 1. Through the JCG ensure that the project is delivered to time and budget through close monitoring and control 2. Ensure that strategic communications are handled sensitively being originated through the JCG | Throughout the project | Mark Sheldon | |

| The risk | | | Original risk score (impact x likelihood) | | | Managing risk | | | | |
|---|--------------|-------------|--|----------------|-------|---------------|--|------------------------|---------------------|------------------------------|
| Risk description | Risk Owner | Date raised | Impact 1-5 | Likelihood 1-6 | Score | Control | Action | Deadline | Responsible officer | Transferred to risk register |
| Customer Satisfaction – if the project disrupts service delivery at Leisure-at and customers are not informed, or their normal routines in using the venue are disrupted, then there is a risk that Leisure-at relationship with customers will deteriorate | Julie Finch | 17.11.17 | 2 | 3 | 6 | Reduce | 1. TCT will ensure that customers will be informed of operational impacts and adjustments will be communicated to ensure that the customer satisfaction is not impaired | Throughout the project | Julie Finch | |
| Performance – if the project fails to deliver the levels of performance set out in the business plan, then the underpinning costs and income analysis will be eroded and the project will not deliver the impacts as set out | Julie Finch | 17.11.17 | 3 | 3 | 9 | Reduce | 1. TCT will ensure that the performance set out in the business plan will have the desired impact for customers and income levels. The Business Plan forms part of TCT's financial strategy for 18/19 as a priority. TCT will report to CBC on progress year on year | Throughout the project | Julie Finch | |
| Governance – if the Joint Commissioning Group fails to ensure that the project is delivered on time and to budget, the project governance will not have been effective | Mark Sheldon | 17.11.17 | 3 | 3 | 9 | Reduce | 1. The JCG will ensure that the project milestones are effectively reported to the relevant scrutiny committees to ensure tight control on progress, quality and the final outcome | Throughout the project | Mark Sheldon | |
| Employee – if key staff change during the project's timeframes for delivery the project could be undermined and may be affected in terms of cost and timing | Mark Sheldon | 17.11.17 | 2 | 3 | 6 | Reduce | 1. Both CBC and TCT will ensure that the information on the project is stored transparently, and that the transfer of knowledge is transparent. Any key changes in staff before May 2018 will be supported by Managers within TCT who are informed during the project. | Throughout the project | Mark Sheldon | |
| Business Continuity – if the project is not planned properly this could affect business continuity | Julie Finch | 17.11.17 | 3 | 3 | 9 | Reduce | 1. A full logistics plan will align with the fully detailed build plan once the contract is approved by CBC and detail is agreed | Throughout the project | Julie Finch | |
| Explanatory notes Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical) Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability) Control - Either: Reduce / Accept / Transfer to 3rd party / Close | | | | | | | | | | |