

Report to: Cabinet

Date of Meeting: 9th April 2018

Report Title: Freedom Leisure Loan for Capital Investment

Report By: Victoria Conheady, Assistant Director, Regeneration and Culture

Purpose of Report

This report proposes that the Council supports the initial capital investment for leisure facility improvements by providing a loan to Freedom Leisure. Freedom Leisure will pay back the loan, plus the appropriate interest charge over the contract term, achieving a financial net gain for the Council.

Recommendation(s)

1. Approve the proposal for the Council to provide a loan to Freedom Leisure.
2. Delegate authority to the Chief Financial Officer and Chief Legal Officer to agree any matters of detail necessary to conclude the final loan arrangements

Reasons for Recommendations

The recent procurement process for the leisure management contract identified Freedom Leisure as the successful bidder. The new contract will commence from 1st April 2018. Freedom Leisure's bid included an investment into various areas, including £134,037.60 on a climbing wall and energy reduction measures. The proposal will result in a net gain of £21,774 for the Council based on an opportunity cost of borrowing of 1%.

Introduction

1. Following a soft market test, the procurement for leisure facility management services was initiated in November 2016. Two compliant bids were received from Wave Leisure Trust Limited and Wealden Leisure Ltd trading as Freedom Leisure. The two tenders were evaluated in accordance with the published evaluation criteria. The preferred bidder was Freedom Leisure, the 5 year (+2 +2 year) contract will commence 1st April 2018.
2. Freedom Leisure's winning bid included investment in the following areas:
 - F/T Community worker post
 - Clip & climb wall
 - New pool inflatable
 - Energy reductions measures
 - Outdoor parkour equipment and training
 - Improvements to changing areas and catering offer
3. The clip & climb wall and energy reduction measures will cost £111,698 + VAT. The proposal is for HBC to loan Freedom Leisure the money to fund the initial capital investment of these items. Freedom Leisure will pay back the loan, plus the appropriate interest charge over the contract term.

Investment Proposal

4. The length of the proposed loan would be 5 years (60 months) at an agreed interest rate of 7%. The amount to be borrowed would be £134,037.60 (the £111,698 + £22,339.60 VAT). The total amount to be repaid would be £159,246.31 (£134,037.60 principal repayment and £25,208.71 interest).
5. The loan will be charging a market rate interest charge meaning that state aid rules do not apply.
6. The council will have the option of funding the loan from its own reserves or from borrowing. The decision as to whether borrowing or reserves are used to fund the loan would be left to the Chief Financial Officer. The net gain from either funding mechanism would more than cover the council's costs of administering the loan.
7. The exact return the Council would make from using reserves depends upon the rate of return that the Council would have forgone from investing the funds elsewhere. The annual treasury management report that went to Cabinet in September 2017 shows the highest rate of return for our short term deposits was 1.05% but with some as low as 0.01%. If we assumed the Council could invest the funds at 1% a return of £3,435 would be received, thus making the net gain from lending to Freedom Leisure for the council £21,774.

8. The alternative option of funding the loan from borrowing is likely to come from the Public Works Loan Board (PWLB) at a fixed rate of around 1.7%. The interest payable by the Council for borrowing the loan amount over 5 years is estimated to be £6,346. The interest received from making the loan to Freedom Leisure would be £25,209. This would therefore leave the Council with a net gain of £18,863. Therefore a lower return than the estimated £21,774 net gain from using reserves as stated above.
9. The borrowing figures for the Council are indicative (those in effect as at 19 March 2017) and will depend upon the rates prevailing at the time any borrowing is actually undertaken.
10. The loan will be paid back over 60 monthly repayments fixed at £2,654.11.
11. The investment will be implemented to benefit the 5 year contract term. Freedom Leisure is keen to proceed with the investment as soon as a decision is made at April Cabinet.
12. If this loan proposal from the Council is not approved by Cabinet, then Freedom Leisure will ensure that the improvements still go ahead but financed via an alternative method.

Resource Implications

13. The finance team will be required to set-up and administrate the loan. The legal team will be required to set-up the loan agreement. Officers believe that the financial return will outweigh the administrative costs.

Wards Affected

All

Implications

Relevant project tools applied? Yes

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	Yes
Crime and Fear of Crime (Section 17)	
Risk Management	Yes
Environmental Issues	Yes
Economic/Financial Implications	Yes
Human Rights Act	
Organisational Consequences	
Local People's Views	
Anti-Poverty	

Additional Information

Officer to Contact

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