

# Cabinet Agenda

**Monday, 6 January 2020 at 6.00 pm**

Council Chamber, Muriel Matters House, Breeds Place, Hastings, East Sussex, TN34 3UY

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# Agenda Item 4



**Report to:** Cabinet

**Date of Meeting:** 6<sup>th</sup> January 2020

**Report Title:** Bohemia leisure and cultural facilities study

**Report By:** Simon Hubbard  
Director, Operational Services

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## Purpose of Report

To update cabinet on the Bohemia leisure and cultural facilities options appraisal study and to recommend next steps in progressing the scheme

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## Recommendation(s)

- 1 To agree in principle to provide a new leisure centre and leisure water, and primary entertainment centre on the Bohemia site, significantly improving on the town's current leisure and cultural offer, with provision for adding an arts centre if capital and revenue funding can be obtained
- 2 £100 000 be set aside to commission detailed site and topographical surveys of the land, to inform and de-risk the next stage of the work; £35 000 to come from existing budgets, £65 000 to be a 'growth item' funded from general reserves
- 3 A report be brought back to cabinet in autumn 2020 reporting on the outcome of the site surveys, recommending a location for the new leisure and entertainment centre, with provision for an arts centre, which would also take into account the potential value of investing in housing elsewhere on the site. This would consider alternative models for financing the work, and include a funding/partnership/investment strategy.

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## Reasons for Recommendations

To ensure that the project can be taken forward in a sensible, cost-effective way.

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## Introduction

1. At its meeting on 4<sup>th</sup> March 2019 cabinet agreed to spend up to £100k to fund the commissioning of an initial options appraisal to consider the development of new leisure and culture centres and associated outdoor spaces within the Bohemia area (£10k of this came from Arts Council England, and the remaining up to £90k required would be funded through existing budgets and an approved 'growth item' of up to £19k). A consortium of consultants, led by Continuum and FEI ('Continuum') were the successful tenderers, and they started work in June. Their initial tender was for £78 120, but additional work on cultural options, and land valuations, has cost £4 300, bringing total spend to date to £82 420.
2. A considerable amount of work has now been done by the consultants, and regular meetings held with HBC's project team and other senior managers; they have also met with lead councillors on a number of occasions. Alongside this, substantial consultation and engagement with stakeholders has taken place. This has included the leisure and cultural sectors locally, and sports national governing bodies, operators and local authority neighbours.
3. Continuum have produced their final strategic report, which is included as Appendix 1. It does contain confidential and commercially sensitive information, and so small parts have had to be redacted, but in the interests of transparency it is felt that it is better to publish a redacted version rather than withhold the report completely.
4. Continuum's primary aim was to look at how the council could generate a critical mass of activity that is deliverable and distinctive whilst at the same time creating a high quality cultural and leisure destination with a strong sense of place and good connections with the wider area.
5. Continuum believe that whilst there are challenges, the potential future development of the Bohemia area in Hastings and the options to develop new leisure and cultural facilities and venues represents a very real and exciting opportunity for Hastings.

## Discussion

6. As can be seen from the report, five options have been identified; the net present value ('NPV' - the difference between the present value of cash inflows and the present value of cash outflows over a period of time, and accounts for the time value of money) :-

<b>Option A</b>	Patch up, indicative capital cost £25.3m, NPV £24.9m
<b>Option B</b>	Direct replacement of current leisure and primary entertainment centre (theatre), indicative capital cost £56.9m, NPV £24.6m
<b>Option C</b>	Enhanced leisure and leisure waters, primary entertainment centre, indicative capital cost £71.6m, NPV £32.6m
<b>Option D</b>	Enhanced leisure, primary entertainment and arts centre, indicative capital cost £77.9m, NPV £41.2m
<b>Option E</b>	Enhanced leisure, waterpark, entertainment and arts venue, indicative capital cost £88.2m, NPV £50.3m

*The 'Net Present Value' (NPV) figure is based on a 25 year financial projection, no inflation and takes revenue costs and income into account*

7. It should particularly be noted that the direct replacement is actually cheaper over 25 years than the patch up option, because maintenance costs continue to rise if the existing buildings are continually repaired, and ongoing subsidy would be required.
8. However, it is our view that we should aspire to more than this. An improved leisure and cultural offer will deliver transformational change to the Bohemia area and, indeed, the whole town. Investing c£57m for what is effectively a like for like replacement does not help us realise this ambition. A like for like offer will leave us falling further behind other towns, as they continue to develop their economy through developing their leisure and cultural offer. We aspire for our new leisure and cultural centre to be a destination in its own right, popular with the local community as well as being able to attract visitors, something the town can be proud of.
9. Option C provides an enhanced leisure centre, enhanced outdoor facilities and a new entertainment centre, and option D provides the additional arts centre to complement the entertainment centre, with the same facility mix as option C.
10. It should be noted that option D meets all of the consultation aspirations for both leisure and culture, and is a very close match to meeting all aspects of the original brief. There was strong support from the local cultural community for an arts centre, which would provide a different offer to the commercial entertainment centre, although it was acknowledged from the outset that this would be significantly more expensive to build and to operate, almost certainly requiring ongoing funding.
11. This is a rare and exciting opportunity to significantly improve Hastings leisure and cultural offer. Finance colleagues have been involved in the development of these options and the current financial pressures are well known and understood. In particular it is acknowledged that the additional capital cost and ongoing revenue contribution required for the arts centre are difficult to countenance at present without additional external investment.
12. Continuum believe new enhanced leisure and cultural facilities would bring the following benefits:
  - Increase opportunities for local residents and visitors to participate in leisure and cultural activities with new high quality integrated leisure and cultural facilities
  - Secure a long-term future for sport and culture within Hastings and raising the profile of Hastings as an attractive place to live, work and visit.
  - Financially viable facilities that generate an operating surplus and do not require a subsidy from the council.
  - More energy efficient and environmentally friendly facilities with a reduced carbon footprint, which aligns with the council's climate emergency position of being carbon neutral by 2030.
13. Our preferred approach is therefore to progress with option C i.e. enhanced leisure centre and leisure water, and primary entertainment centre, with provision for

adding an arts centre at a later stage if necessary when capital and revenue funding can be obtained. This supports Continuum's recommendation based on the Treasury's 'Green book' business case evaluation methodology. It is proposed that we raise the level of interest and support in the cultural offer as soon as the current budget process is finalised, to improve the chances of obtaining funding to secure the arts centre.

### **Proposed next steps**

14. It is acknowledged that the 'at risk' revenue costs of developing detailed plans to planning application stage are considerable.
15. Before detailed site and building design work can start, site, service, and topographical, geotechnical and contamination surveys are required to confirm the viability for locating the leisure and cultural centres. It is in some respects a tricky site, hilly and dropping steeply at its southern end, crossed by a relatively shallow railway tunnel; it is lacking accurate service information, such as that regarding utilities and sewers.
16. It is therefore recommended that detailed site, service and topographical surveys be commissioned for the whole of the Bohemia site (excluding the Travelodge site, which will be undertaken by the hotel owners), which are likely to cost around £100 000.
17. This helps 'de-risk' the project before more substantial sums are invested in detailed design work, and will make any development here a more attractive proposition for investors/partners. Once completed, a report should be brought back to cabinet detailing the results and a proposed way forward recommended. As noted above this is felt to be option C at this stage, i.e. enhanced leisure and leisure waters, and primary entertainment centre, but with the option of adding an arts centre if capital and revenue funding can be obtained.
18. The promotion of the scheme outlined in the consultants' report marks the beginning of a campaign to win support for a development of this scale.

### **Timescales**

19. Ordinarily the commissioning and executing of these surveys would be expected to take 4 – 6 months. However, given the organisational changes expected shortly, which may impact upon the team expected to project manage/deliver this work, it is more realistic to expect the work to be completed within nine months. A report to cabinet could therefore be expected in autumn 2020. Commissioning a team of engineers and architects to develop detailed plans would take until early 2021, meaning that any significant architects' and engineers' fees would not be incurred until the 2021/22 financial year.
20. A masterplan study to understand the relationship between residential development and the leisure and cultural centres is recommended if work progresses further, with a coordinated approach to transport, movement, energy, servicing and waste management to deliver a high quality development and public realm. This could form part of the investment plan work for the Town Deal, which officer will be progressing during 2020 and beyond, subject to Cabinet approval.

21. Subject to planning permission being obtained, work could start on site in late 2024, with completion by 2026.

## Finance

22. The capital and NPV costs of the scheme are summarised above and detailed in the appended report; the enhanced leisure, leisure water centre and primary entertainment centre has an indicative capital cost of £71.6m and NPV of £32.6m. Adding an arts centre gives an indicative capital cost of £77.9m, and an NPV of £41.2m.

23. As suggested above, the site survey, etc., work is likely to cost around £100 000, and this would be undertaken before detailed planning and engineering work started.

24. The existing Summerfields leisure centre site can be redeveloped for housing once the new leisure centre is open. The future of the White Rock Theatre building will be considered as part of the wider masterplanning of the area referred to above.

25. The value of the Bohemia land available for housing is dependent on the site chosen for the leisure and cultural centre; this in turn will be informed by the site and topographical survey. Land values – and the cost of construction – change over time, and the addition of a new leisure and cultural centre would be expected to increase land values, as noted above.

26. It is therefore recommended that further work is undertaken on the viability of the various site options, and the value that can be generated from them, once the topographical/survey work has been undertaken.

27. It is also recommended that, over the coming months, and in parallel with the site work, alternative models for financing the new facilities are thoroughly explored, and that a funding/partnership/investment strategy is developed, likely forming part of the Town Deal Investment Plan work being developed by council officers, as mentioned previously above.

## Recommendations

- 1 To agree in principle to provide a new leisure centre and leisure water, and primary entertainment centre on the Bohemia site, significantly improving on the town's current leisure and cultural offer, with provision for adding an arts centre if capital and revenue funding can be obtained
- 2 £100 000 be set aside to commission detailed site and topographical surveys of the land, to inform and de-risk the next stage of the work; £35 000 to come from existing budgets, £65 000 to be a 'growth item' funded from general reserves
- 3 A report be brought back to cabinet in Autumn 2020 reporting on the outcome of the site surveys, recommending a location for the new leisure and entertainment centre, with provision for an arts centre, which would also take into account the potential value of investing in housing elsewhere on the site. This would

consider alternative models for financing the work, and include a funding/partnership/investment strategy.

### Timetable of Next Steps

28. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Site surveys commissioned	Action completed	January 2020	Kevin Boorman
Site surveys completed	Action completed	August 2020	Kevin Boorman
Finance models developed	Action completed	August 2020	Kevin Boorman
Funding/partnership/investment strategy developed	Action completed	August 2020	Kevin Boorman
Cabinet paper recommending next steps	Action completed	Autumn 2020	Kevin Boorman

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### Wards Affected

All

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### Implications

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

#### **Equalities and Community Cohesiveness**

The new leisure and cultural centres have the potential to increase participation and create a new destination for the community

#### **Crime and Fear of Crime (Section 17)**

n/a

#### **Risk Management**

As per the project management tools a risk log is being maintained

#### **Environmental Issues**

Undertaking site and topographical surveys as per the recommendations will help to inform and de-risk the project

### **Climate Change**

The indicative costs for the buildings take count of the need to meet high 'BREEAM' standards, and for the buildings to be sustainably built and operated, including the use of heat pumps where applicable

### **Economic/Financial Implications**

Requirement for funding to undertake the site and topographical surveys as per the recommendations. Further implications will become clearer as the project is developed in more detail.

The new leisure and cultural centres have the potential to generate income for the council and contribute to the wider economic growth and regeneration of the town

### **Human Rights Act**

n/a

### **Organisational Consequences**

n/a

### **Local People's Views**

Local stakeholders were consulted with as part of the options appraisal study process.

### **Anti-Poverty**

n/a

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## **Additional Information**

Appendix 1: Bohemia Masterplan – Sport and Culture – strategic report

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## **Officer to Contact**

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# Bohemia Masterplan – Leisure and Culture

Strategic Report , 9th December 2019

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### Appendices:

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<b>Appendix 3</b>	<b>Business Planning Assumptions</b>
<b>Appendix 4</b>	<b>Outline Specification for Leisure</b>

## 1. Introduction

In June 2019, Continuum Sport and Leisure (Continuum) and Festivals and International Events (FEI) were commissioned by Hastings Borough Council (the Council) to undertake an options appraisal study for leisure and cultural facilities as part of the Bohemia masterplan. The Council were keen to be armed with detailed and robust information to help inform their planning and decision making in relation to any potential future developments of leisure and cultural facilities within the Bohemia area. In May 2019, ahead of commissioning the study and circulating the subsequent brief, the Council had set out the need for both the recognition of the importance of Bohemia and the need to undertake more detailed research into the opportunities and costs associated with any development of the study site to Cabinet. In order to explore the feasibility of developing the site, identify options that are available, highlight the demand for facilities, illustrate the impact that they can have in the local area and explore the potential financial issues and opportunities that are associated with any scheme, the Consultant Team have undertaken a detailed review process to assist the Council with their decision making regarding the long-term future of the leisure and cultural facilities.

The focus of the study has been to investigate the most effective and efficient potential redevelopment options for Summerfields Leisure Centre, White Rock Theatre and the outdoor leisure and recreation facilities in Bohemia.

This strategic report sets out the options appraisal with the focus on the financial analysis and business planning in order to assist the Bohemia Project Team in assessing the potential financial impact of any proposed investment.

It should be noted that since the commission in June 2019 there have been some notable changes in a number of internal and external factors.

Internally, the Council has had further budget reviews and key financial challenges for projected future budgets. Externally the Treasury Announcement in October 2019 means there is a rise in the interest rates for the Public Loans Works Board. The Council are however committed to the future regeneration and development of this important project.

Whilst challenges remain, the potential future development of the Bohemia area in Hastings and the options to develop new leisure and cultural facilities and venues represents a very real and exciting opportunity for Hastings.

In the current climate of financial and political uncertainty, the Consultant Team are confident that with strong leadership and robust long-term, non-partisan decision making focused on working towards further technical and financial certainty, the redevelopment of leisure and cultural facilities can have a lasting positive impact on the town.

## 2. Scope of the Study

### 2.1 Context

The Council have to date devoted notable effort and resources into developing the Bohemia project to be placed as the heartbeat of regeneration within the town. This study's priority aim is to *“generate a critical mass of activity that is deliverable and distinctive whilst at the same time, creating a high quality cultural and leisure destination with a strong sense of place and good connections with the wider area.”* The study highlights two key areas for development, which are the leisure and cultural offer. The Council have outlined the desired outcomes they want to achieve regarding the leisure offer, which are:

- Improved and rationalised outdoor sports facilities
- To generate income and minimise public subsidy
- Increased appeal and enhanced access for a wider range of users, reaching out to local communities particularly inactive residents and disadvantaged groups
- Positive impact on health and wellbeing outcomes and increased participation in sport and physical activity
- ‘Top end’ product to provide enhanced tourism and regional offer, including its perception as a wet weather attraction
- Evidence based programming

With regard to the cultural offer for Bohemia, the study scope sets out that the White Rock theatre is considered an outdated theatre that is unfit for purpose and does not meet the aspirations of the Council. The Council stated that it would like a building that meets the following needs:

- A presenting theatre which provides exciting, magical and inspiring experiences for everyone
- A theatre which has a strong emphasis on quality in everything that it does

- A theatre which presents a diverse professional programme, and which actively supports and encourages local performers
- A home for amateur groups to present their work to local audiences
- A theatre which delivers an active community, education and outreach programme, developing participation and audiences, particularly in the most deprived areas of the town
- A theatre which actively collaborates with other cultural partners, including subsidized organisations looking for residency opportunities
- A theatre which has the design and size to do all of the above

The scope of the study sets the clear aspirations the Council has for the study site to become the heartbeat of the town's regeneration, bringing forward an underutilised area into a place for people to work, live and visit. During this project we have constantly reviewed and revisited this brief to ensure the overall approach and emerging recommendations remain aligned with the Council's vision for Bohemia.

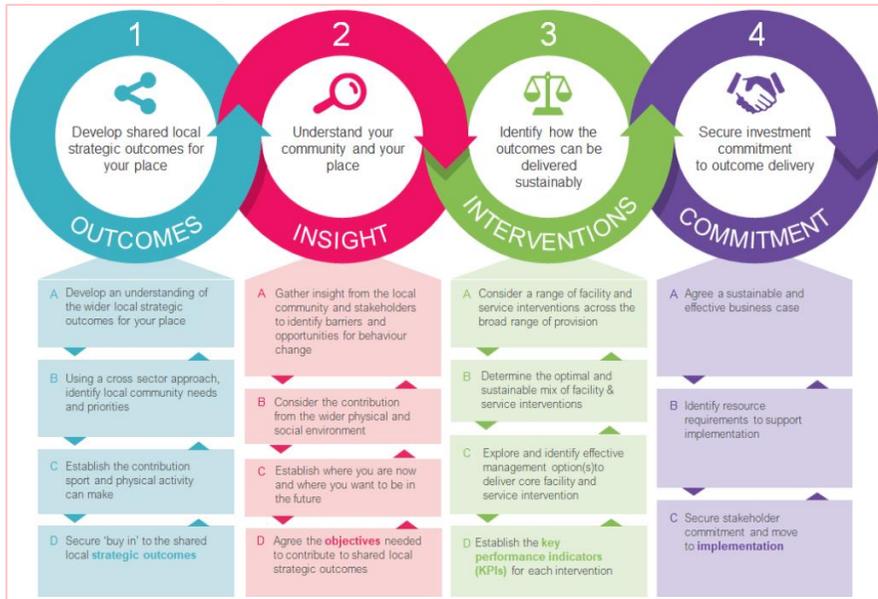
### 2.2 Sport England Strategic Outcomes Planning Guidance

The brief has also been shaped and influenced by the recent Sport England guidance on Strategic Outcomes with the Council keen to ensure that the study focuses on the need to ensure a clear evidence base and a strategic approach to developing community facilities. Whilst the model has been developed by Sport England with the focus on facilities for sport and physical activity, it can be equally applied to the development of cultural facilities and the important and positive impact that they can and do have on the wellbeing and the attractiveness of an area and its communities.

The Sport England guidance is summarised in the diagram below. The model describes the stages and approach needed to ensure investment best meets local strategic outcomes and the needs of the community, but importantly recognises the challenges faced in terms of resourcing and developing large-scale capital projects. The guidance clearly states

that projects need to be achievable and sustainable which, as detailed within this strategic report, has remained at the forefront of our thinking when discussing the facilities and options on our study site.

**Figure 2.1: Sport England Strategic Outcomes Planning Guidance**



This brief and the delivery of this options appraisal cover Stages 2 and 3 of the Sport England model. The Council have set the outcomes associated with the study and have invested notable time and resources into assessing the wider needs of the town and its population through its various key strategies and policies. The Consultant Team have identified the leading strategic objectives and set out how the proposed interventions will have the greatest impact on the leading objectives. By considering a range of facility and service interventions across the broad range of provision, completing Stage 3 will identify the optimal and sustainable mix of facility and service intervention. This will

enable the Bohemia Project Team to work towards a future commitment that is deliverable and will ensure significant improvements and benefits for the town.

**2.3 DCMS and ACE Strategic Framework for Culture**

The national context for the Culture and Creative Economy is set out by the DCMS and Arts Council England. The Culture White Paper (DCMS 2016) makes the case for culture’s important role in place-making, in driving economic growth, in talent and skills development and in promoting Brand Britain. It also makes a pledge that everyone should have the opportunity to enjoy the opportunities culture offers at all stages of their lives and for wherever they live. Arts Council England’s Draft Strategy for 2020-2030 is to enable more people to take advantage of more opportunities to develop and express their creativity, to support them to access the widest possible range of high-quality culture, and ultimately to help create a country in which creativity and culture enrich the lives of every one of us.

**2.4 Study Site**

The overall study site has multiple users and user groups located there with both formal and informal arrangements in place. There are a number of formal arrangements in the form of leases that are currently in place on the study site.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### 3. Methodology and Approach

To ensure the development of a detailed and robust options appraisal and associated recommendations, the Consultant Team deployed a multi-stage methodology that sought to meet both the needs of the Council brief as well as follow the Sport England guidance. An overview of the approach is set out within this section.

#### 3.1 Desk Based Review

A significant amount of research, statistical information and strategic documentation has been analysed and reviewed by the Consultant Team during this project. This information has provided background data and context about the population and demographic make-up, current participation trends and the existing supply of leisure and cultural facilities within Hastings and neighbouring areas. This background research also includes the review of strategies and action plans that have been published by a range of national, county-wide and local bodies and organisations. It has been undertaken as a way of highlighting the strategic relevance of our study site to a wide range of partners and stakeholders. Information has also been provided by the centre's operator Freedom Leisure and the theatre's operator HQ Theatres relating to the current and historical management of the buildings. This data has been reviewed, analysed and used to inform the consultation sessions as well as the facility mix and financial options for the site. A summary of the key strategies and policies is provided in Section 4 of this strategic report to indicate the breadth of support and alignment to key strategic documents and policies, which will both influence and be influenced by the future development of the facilities.

#### 3.2 Consultation with Key Stakeholders

A key part of this study has been a detailed consultation process with key partners and stakeholders. The Consultant Team were keen to ensure that this process sought the views of a wide range of individuals and organisations. The Consultant Team undertook several face-to-face and telephone interviews with key stakeholders. These interviews centred around standardised and bespoke questions for each of the consultees in order to gain their insight and opinions on the Bohemia development and the potential development of facilities at the site.

In order to gain the views and opinions of a wider range of partners and potential users of the facilities at the leisure centre, the Consultant Team also developed an online community club survey which was sent to a number of locally based sports clubs/organisations.

Additionally, the Consultant Team undertook two sector specific workshops to engage a number of wider stakeholders in the process. In August 2019, FEI invited the leading stakeholders of the Hastings cultural scene to discuss the facility mix and demand within the town to help understand the local opinion. In September 2019, Continuum held a sports and leisure workshop which helped to gain insight into the local population's view on the leisure facilities currently available in the town.

The findings of the consultation process and the responses to the online questionnaires have been analysed and are also incorporated into the consultation findings. An overview of the partners consulted, and key outcomes are provided in Section 5 of this report.

### **3.3 Concept Designs, Options Appraisal, Business Case and Affordability**

Following the detailed analysis of the findings from the consultation process the Consultant Team identified a number of options, working closely with the Bohemia Project Team. Additionally, these were then subject to concept designs and indicative cost planning exercises.

Continuum has worked within the Consultant Team to develop a range of potential development options for the Council to consider for Bohemia. As a result of this process, a number of initial concept designs and spatial plans have been prepared to illustrate the different options for the site. Cost Consultants have also been an integral part of the Consultant Team and have prepared the outline, indicative capital costs for each of the options presented. Following on from this, the Consultant Team has undertaken an options appraisal for the study site. A key element of the options appraisal exercise that has been undertaken is the development of outline business plans illustrating the associated revenue implications for each of the options. The options are then subject to qualitative and quantitative financial analysis to present a series of initial recommendations and provide the Council with a range of options to discuss and agree a way forward for the site.

### **3.4 Client and Council Member Review**

Throughout the study the Consultant Team have presented the key findings at specific milestones with the Bohemia Project Team, the Bohemia Project Board (responsible for overseeing all development within the Bohemia Area) and with lead members for Regeneration, Culture and Tourism, Housing, Leisure and Community Engagement and the Leader of the Council. Key findings and emerging priorities have been relayed and debated within these different forums and feedback and direction from the Council has been sought throughout these stages. The Consultant Team have ensured that each key milestone has been developed in partnership within these forums to ensure a truly shared and owned options appraisal study.

## 4. Strategic Context

An integral part of the review process for the study has been the review and analysis of key strategic documents at a national, regional and local level to assess how the overall potential development for leisure and culture can meet the wider strategic needs of national, regional and local policy for Hastings. Any proposed development set out in the study aims to redevelop leisure and cultural facilities on the study site to serve market demand and strategic need across Hastings. As such, it will contribute to the delivery of a wide range of strategies covering health and wellbeing, physical activity, tourism and visitor economy, skills, employment and education, regeneration and growth in a priority area both for Hastings and on a national scale.

The strategies reviewed within the overall study include:

### 4.1 At the national level:

- DCMS - Sporting Future: A new strategy for an Active Nation (2015)
- Sport England - Towards an Active Nation (2016)
- Public Health England - Everybody Active, Everyday (2014)
- DCMS - Cultural White Paper (2016)
- Arts Council England - Shaping the Next Ten Years (2019)

### 4.2 At an East Sussex region level:

- Active Sussex Strategy (2018-2023)
- East Sussex Cultural Strategy (2013-2023)
- Children and Young People's Emotional Health and Well Being Local Transformation Plan (2015-2020)
- East Sussex Growth Strategy (2014-2020)
- East Sussex Strategic Partnership - Health and Wellbeing Strategy (2016-2019)
- East Sussex County Council - One Council Property Asset Management Plan (2013-18)
- East Sussex County Council - Council Plan (2019/20)

- East Sussex County Council - Local Transport Plan (2016/17-2020/21)
- East Sussex Joint Need Assessment - Focus on East Sussex (2018)
- Skills East Sussex – Activity Plan (2017-20)

### 4.3 At the local borough level:

- Hastings and St Leonard's Play Space Strategy (2015-2017)
- Hastings Local Football Facility Plan (May 2019)
- Hastings and Rother Playing Pitch Strategy (2016)
- Hastings Leisure Facilities Strategy 2009-2020 (2015 Refresh)
- Hastings Borough Council - Seafront Strategy (2015)
- Culture-Led Regeneration Strategy (2016-2021): A Strategy for Hastings
- Hastings and Rother Clinical Commissioning group – Local Need and Assets Profile (2016)
- Destination Hastings – Future High Street Vision
- Hastings Town Centre and Bohemia Area Action Plan (July 2018)
- Department for Education - Hastings Opportunity Area 2017-2020 (Social mobility)
- White Rock and Bohemia: A Strategy for the future of the White Rock Area, Hastings (July 2017)
- Hastings Planning Strategy Plan: The Hastings Local Plan 2011-2028
- Hastings Corporate Plan (2019/20)

As part of the overall study, this wide range of strategies, policies and plans have been examined. Relevant key messages have been taken from each document along with key outcomes and actions which the proposed facility developments can support. This process helps to demonstrate that plans for the development of new facilities for leisure and culture within Bohemia are of strategic relevance to a wide range of groups and organisations. This will help to ensure that they are well-used, benefit a wide range of community users and potentially attract investment from partner organisations.

Whilst any decisions regarding the potential redevelopment of a new leisure centre, facilities and a cultural venue for Hastings will be governed by financial viability and affordability, the wider community benefit and the ability of the site to play an increased role in helping the Council meet aspirations across a wide range of agendas should not be overlooked. Investment into community facilities will support the Council’s work against their own corporate aims and ambitions and also provide the regeneration of a key area that can have a lasting, long-term impact on strategic objectives. It is important for the Council to continue to engage the various key partners and organisations to ensure a continued strategic alignment with appropriate objectives.

The wider value of participation in leisure and culture is recognised across a range of policy areas, including health, crime, education, employment and regeneration. Bohemia already accommodates strategically important facilities within Hastings, and it is essential to ensure that it can continue to support the work of a range of local and national partners. The study site has the potential to support a sustained increase in leisure and culture and the arts for local people. Engaging a wide range of partner organisations that can potentially support aspects of the capital development, as well as the delivery of quality opportunities, will be of great benefit to the leisure and cultural landscape.

## 5. Consultation

Consultation has been at the heart of this options appraisal and master planning process and has assisted in shaping the overall development planning for both leisure and culture. The Council recognise the importance of engaging with various partners across both sectors as part of the overall approach to the study.

The process has involved a large number of individuals and stakeholders from Hastings Borough Council, East Sussex County Council, Theatre and Leisure Centre operators, National Governing Bodies of Sport, the community clubs on site, other local stakeholder groups and members of the local community.

The Consultant Team have been engaging with key stakeholders throughout the process, undertaking the following:

- Stakeholder workshops with the council members.
- Stakeholder workshops with the leading community sports clubs and cultural groups within Hastings.
- Survey of the leading community sports clubs to gauge demand of facilities.
- Consultation with National Governing Bodies on funding, facility development and the supply and demand in Hastings.
- Consultation with key stakeholders and partners for sport and culture both internal and external to the Council and planning, economic development, leisure, tourism, estates and regeneration within the Council.

### 5.1 Tier One Consultation

This stage of consultation was completed mainly via face to face interviews and included major stakeholders involved in this project. This tier of consultation enabled the Consultant Team to get a clearer picture of Hastings, the project and ensure a good understanding of where it is

placed within Hastings priorities. These leading influential stakeholders included the following:

- Hastings Borough Council Regeneration Team
- Hastings Borough Council Major Projects Team
- Hastings Borough Council Planning Team
- Hastings Borough Council Estates Team
- Hastings Borough Council Finance Team
- Hastings Borough Council Museum and Cultural Team
- Hastings Borough Council Leisure Team
- Hastings Borough Council Economic Development Team
- Hastings Borough Council Housing, Leisure and Community Engagement Portfolio Holder
- Hastings Borough Council Deputy Leader of the Council and Regeneration, Culture and Tourism
- Sport England
- Arts Council England
- Freedom Leisure
- HQ Theatres
- East Sussex County Council Transport and Highways Team
- East Sussex County Council Director of Public Health
- East Sussex County Council Economic Development Team
- East Sussex County Council Education and Employability Team
- East Sussex County Council Cultural Team
- Hastings and Rother CCG Health Inequalities Programme Manager

### Key Findings

We have highlighted the key findings that represent the balance of views we found during our tier one consultation below:

- Strategically important site and considered very important for the regeneration of the town. The leading aspirations of the Council were noted that the priority was to deliver new facilities and not refurbish the current provision.

- Hastings' current health statistics are extremely poor and are continually getting worse year on year in comparison to neighbouring boroughs. As part of the discussion around the health statistics in Hastings, there were several conversations around the co-location of other services and facilities on the study site.
- Although this project is vital for the regeneration of the town, there were several concerns surrounding the affordability and cost of the project due to the Council's financial position.
- [REDACTED] it was noted that the building should be outward looking, engaging and sensitively integrated into the site's topography, whilst considering the views from the pier and the castle.
- It was noted that the site had considerable potential constraints due to the topography and location of the site.
- [REDACTED]
- The White Rock Theatre is no longer fit for current purpose and has little or no potential for economic refurbishment in line with the cultural centre and aspirations described in the brief.

[REDACTED]

### 5.2 Tier Two Consultation

This stage of consultation was completed via telephone and included partners interested in and affected by this project. This tier of

consultation was to enable us to get a clearer picture of Hastings and the surrounding areas to ensure alignment to wider strategic objectives and environment of the town. This tier of consultation included the following stakeholders:

- Active Sussex
- East Sussex College
- Rother District Council Leisure Team
- Wave Leisure (Eastbourne)
- Hastings and Rother Disability Forum
- One You East Sussex
- Hastings' Business Improvement District
- Boyley Skate Park
- Y Centre (YMCA)
- Locate Sussex
- Eastbourne Theatres
- Theatres Trust
- De La Warr Pavilion, Bexhill
- Hastings Contemporary and Chair of Hastings and Rother Cultural Leaders Group
- Museum and Cultural Development Manager and Arts and Cultural Development Officer – Hastings Borough Council
- Stephen Browning Associates
- Didcot Cornerstone Arts Centre
- Tunbridge Wells Assembly Hall Theatre
- Creative Folkestone

### National Governing Bodies of Sport

- Swim England
- England Hockey
- England and Wales Cricket Board / Sussex County Cricket
- Football Association / Sussex County Football Association
- Lawn Tennis Association
- England Squash

- Badminton England
- England Netball
- Volleyball England
- Table Tennis England
- British Judo
- British Cycling
- Bowls Development Alliance
- Petanque England
- England Boxing
- England Athletics
- Parkour UK
- British Gymnastics
- British Fencing
- Floorball UK

- Hastings. Consultees noted that cost is a considerable issue due to the high levels of deprivation in the town.
- Consultation found that there is a significant demand for BMX and the Skateboard industry with international organisations being located within Hastings. [REDACTED]  
[REDACTED] - expanding the offer was seen as needed locally.
- The Sussex FA highlighted the need for further 3G provision, which has been noted within the Playing Pitch Strategy and Football Facility Plan.
- LTA has highlighted that Hastings is a priority area for indoor tennis and the enhancement of park tennis offer. Table Tennis England noted that they would be interested in taking the PING programme to Hastings, which would encourage casual table tennis participation.

**Key Findings**

We have highlighted the key findings identified during our tier two consultation below:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- Active Sussex were very supportive of this project due to the need for new and improved facilities within Hastings.
- East Sussex College were supportive of the development. [REDACTED]  
[REDACTED]  
[REDACTED]
- Consultation found that it was important for the site to be accessible for all in the community, including people with a limiting disability.
- It was noted that the programmes being run at the leisure centre and the new cultural venue need to consider the demographic of

[REDACTED]  
[REDACTED]  
[REDACTED]

**5.3 Tier Three Consultation**

This stage of consultation was completed via an online club survey for sport teams and clubs and through public workshops, completed for both leisure and culture. The club survey was sent out via Active Hastings to engage with clubs that use facilities within the borough. For both public workshops, we invited key stakeholders from each sector to attend. Both the online survey and public workshops gave the opportunity to hear the views of the public stakeholders who are involved within the sector in Hastings and the surrounding areas. This tier of consultation enabled us to get detailed insight into each sector within Hastings and help us comprehend local issues and aspirations.

**5.3.1 Sports Club Survey**

Online surveys were sent to 72 local sports clubs and organisations as part of the consultation process with individual contact information for the clubs sourced via the Council, Freedom Leisure and the Active Hastings team. The surveys gave the clubs the opportunity to give their views on current provision for sport and leisure within Hastings and the Bohemia area and asked them about future needs and aspirations. 32 responses were received, giving a response rate of 44.4%.

### 5.3.2 Workshops – Bohemia Delivery Group and Sport and Culture

#### *Bohemia Delivery Group*

In July 2019, the Consultant Team led a workshop with the Bohemia Project Team to raise discussions on the facilities, the site and the challenges the development will face. This allowed the Consultant Team and the Bohemia Project Team to extract discussions and gain in-depth information.

#### *Cultural and Leisure Workshops*

The Consultant Team also facilitated two separate sector-based workshops for culture and leisure. A cultural workshop was held in August and a sport workshop in September. Individuals and organisations within each sector were invited to gain insight into the local thoughts on the leisure and cultural facilities.

#### **Key Findings**

We have highlighted the key findings from this consultation below:

- Within the survey we asked which facilities they would like to see provided on our study site in the future. The most popular facility that clubs wish to see provided is a sports hall and swimming pool (60%). Other leading facilities that clubs stated a preference for include multi-use games areas (50%), adventure sports provision (40%), health and fitness suites (35%), Artificial Grass Pitch (35%) and running trails (39%).
- 78% of clubs stated that they are supportive of plans to redevelop and enhance the facilities in the White Rock and Bohemia area. 18% indicated that they are neither supportive nor not supportive, and 4% said they were not supportive of the project. This high level of support indicates that clubs and local organisations are aware of the benefits of redeveloping and improving the facilities currently on offer at the site.
- Within the Bohemia Delivery Group, it was stated the facility should be reviewed in terms of economic and social benefits due to the significant social issues that are within Hastings.
- The Bohemia Group discussed the meaning of co-location. This could be interpreted in different ways – including sharing of resources (e.g. car parking / energy supply), creation of a shared atrium, sharing an external plaza space etc. Equally, there may be no physical connections or immediate adjacencies between the buildings, but just visual links across the site.
- There is a lack of engagement with hard to reach groups and inactive people because facilities are not fit for purpose and are not appealing.
- It was noted that general cost needs to be considered, as well as site accessibility given the lower level of local car ownership. Additionally, Smart pricing was also mentioned here regarding higher prices for tourists during summer months.
- It was suggested that making the most of the views, both up towards the site from the seafront and towards the sea from the facilities could be a very valuable USP, setting the area apart from competitors.
- In the main, the local cultural sector wants a subsidised ‘arts centre’ type offer, although they recognise the importance of a ‘popular entertainment programme’ in Hastings.

- The White Rock Theatre is no longer fit for current purpose and has little or no potential for refurbishment as the cultural centre envisaged in the Options Appraisal Study.

The overall consultation process was extremely beneficial, helping to identify and measure the existing need and demand for the development of sporting and cultural facilities within Bohemia. The process also ensured that all leading partners contributed towards this options appraisal study.

## 6. Development Options Overview

### 6.1 Options Overview

The focus of this strategic report is on the delivery and financial appraisal across a range of development options. Example site plans and concepts are highlighted within this section.

The development of leisure and cultural facilities for Bohemia are considered across a number of leading options below. It should be noted that whilst the study considers a like for like replacement of Summerfields Leisure Centre it does not consider a like for like replacement of the White Rock Theatre due to the inherent design shortcomings of the current venue.

#### ***Option A: Do Minimum Refurbishment***

This option sets out the costs of retaining the existing venues in their current configuration with the necessary works to upgrade the facilities to modern standards and to extend their lifespan for a further 25 years. It should be noted that the costs associated with this option have been provided from estimates from the Hastings Estates Team and HQ Theatres. The study has not included, both from the original brief and also in consultation with the Council Estates Team during this study, any detailed condition survey or analysis of the current facilities.

By common consent The White Rock Theatre is no longer fit for current purpose and has little or no potential for refurbishment as the cultural centre envisaged in the Options Appraisal Study. An Options Appraisal in November 2017, led by Cartas Jonas, identified that a ‘do minimum’ facility would require: a replacement roof; remedial works to the building fabric; full replacement of M&E services including heating and air circulation; installation of sound separation to the Main Auditorium/Sussex Hall; new seating and a replacement floor in main auditorium. Neither the Council nor the current operator have

undertaken a detailed and costed condition survey; however, based on our experience, we estimate the minimum cost of these works could be £10m plus professional fees. The Theatre would be required to close for a minimum of 12 months and after the works were completed the venue would still suffer from inadequate seating capacity for commercial operation, limited technical facilities for staging larger scale shows and poor customer facilities. We estimate the management fee/subsidy required to operate this ‘do minimum’ facility to be in the region of £350k per annum.

To address the wider inadequacies of the White Rock Theatre would likely take the cost of a full refurbishment to between £25-30m and would probably result in a smaller capacity venue with an increased subsidy requirement.

#### ***Option B: Like for like replacement of Leisure Centre and a New Entertainment Centre and Enhanced Outdoor Provision***

In this scenario, the existing facilities are demolished and replaced with comparable new venues that would include the following:

- New build 4,916m<sup>2</sup> leisure centre with 25m 6 lane pool, teaching pool, 120 station gym, 2 group exercise studios, 6 court sports hall, squash courts, soft play and café
- New entertainment centre with 1,200 seat/1,800 standing main hall, and a destination café/restaurant shared with the leisure centre
- Public open space and events area
- New outdoor sports hub with all-weather 3G pitch, extended BMX and skatepark, tennis courts and bowling greens
- 300 space car parking

This option sees the White Rock Theatre replaced by a purpose-built Entertainment Centre, owned by the Council and run by a commercial operator on a 25-year lease. The programme would mainly be

commercial music, comedy and pantomime but of a higher quality than the current White Rock Theatre programme. Exemplar venues include G-Live in Guildford, with a capacity of 1,200 seated and 1,800 standing, modern technical facilities, first class customer service and hospitality facilities and a day-time destination café as part of the public space with the new Leisure Centre.

***Option C: Replacement Enhanced Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision***

As per Option B, but with an enhanced leisure centre of 8,894m<sup>2</sup> - increasing water space with a larger 8 lane pool, learner pool, leisure waters with an integrated splashdeck and water fun features which include flumes and/or a wave pool provision. Extended health and fitness facilities would include a 150-station gym, 3 studios and the outdoor provisions enhancements as per Option B.

***Option D: Replacement Enhanced Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision and Arts Centre***

Option D provides the same leisure and entertainment centre facilities as Option C but includes an additional arts centre venue. This option builds on the Entertainment Centre with the provision of Arts Centre facilities and programming. It includes a second flexible theatre space for 250 seated/500 standing and two dance/rehearsal studios for community, education and private event use. The Arts Centre would be run by the same commercial operator as the Entertainment Centre, but the programme would have a higher cultural component, including community and educational uses. Exemplar venues include the Cornerstone Arts Centre in Didcot and the programme might include contemporary dance, small scale drama and children's shows. It could also be a venue for Hastings' home-grown music scene, amateur productions of scale, exhibitions, live cinema and hosting an education/community development programme.

These types of Arts Centres, with a small capacity and high cultural value, typically require a subsidy of between £350-500k per annum, but by combining with the Entertainment Centre and being run by a commercial operator the Consultant Team estimate the subsidy could be reduced to £250k per annum.

***Option E: Extensively Enhanced Replacement Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision and Arts Centre***

This option includes the same facilities as Option D, but with the expansion of the leisure water offer for the leisure centre and the provision of an indoor waterpark including features such as a lazy river, wave pool and extended flume rides. The leisure centre footprint expands to over 12,000 square metres.

**6.2 Capital Costs Summary**

Figure 6.1 below sets out the summary of the capital cost estimates associated with each option.

It should be noted that given the level of information available at this early stage of the project, the range of costs provided must be viewed as indicative only. They will need to be subject to further scrutiny at later detailed design stages (following this study). Should the development of the overall project be considered further by the Council, the Cost Consultants recommend that the scope and extent of the works is confirmed by any appointed Design Team, including input from Structural and Services Design Engineers, and that a detailed Cost Plan is produced. No input from services or structural engineers has been used to inform the costs set out in this report. Allowances are therefore based on typical costs per metre squared rates for works of similar type and nature. This cost per metre squared is set at a range typical for leisure builds and entertainment and cultural facilities at the time of this report being produced. In view of the level of information detailed at this feasibility stage, attention is drawn in particular to the assumptions and exclusions

which are appended to this strategic report. These define the allowances and scope of works contained within the respective Orders of Cost. Fee estimates have also been included which include slight variances based on the size of the capital cost estimates.

**Figure 6.1 Capital Cost Summary**

Option	Capital Costs Leisure	Capital Costs Culture	Indicative Total
<b>A. Do Minimum</b>	£12million	£10million	<b>£25.3million</b> (inclusive of 15% fee estimate)
<b>B. Direct Replacement of current Leisure and Primary Entertainment Centre</b>	£17.1million (+ Outdoor £2.5m) £19.6million	£29.2million	<b>£56.9million</b> (inclusive of external works estimate £1.95m and 12% fee estimate)
<b>C. Enhanced Leisure and leisure waters Primary Entertainment Centre</b>	£33.3million	£29.2million	<b>£71.6million</b> (inclusive of external works estimate £1.95m and 11% fee estimate)
<b>D. Enhanced Leisure, Primary Entertainment and Arts Centre</b>	£33.3million	£35.3million	<b>£77.9million</b> (inclusive of external works estimate £1.95m and 10% fee estimate)
<b>E. Replacement Plus – Waterpark Entertainment and Arts Venue together</b>	£43million	£35.3million	<b>£88.2million</b> (inclusive of external works estimate £1.95m and 10% fee estimate)

\*NB: Fee estimate levels vary based on projected capital costs

### 6.3 Site Plans and Layouts

Figures 6.2 and 6.3 that follow set out some initial site layouts associated with the spatial options being considered as example site layouts. This strategic report highlights the latest work in progress considering the spatial planning and challenges of this large and complex site. As with the options described above, the focus has been on the indoor leisure facilities and the entertainments and arts venue being developed adjacent to one another working as a complex and shared public space. This has emerged as part of both the consultation with operators and from a design and place-making perspective.

All the outdoor facilities are to be enhanced and redeveloped with greater purpose and coherence and the aim to reduce the impact of car parking and working towards some solutions for the coach parking on Falaise Road.

Figure 6.2 Site Plan 1



### Site Plan 1

The indicative site plan shows the proposed location of the new leisure centre, entertainment centre and arts centre adjacent to one another on the lower end of the site in close proximity to the seafront and the Pier with the formation of a public square. This option creates a strong visual and physical connection with the waterfront and the Pier on the raised platform of the current bowls green. This option also provides equal presence of both facilities taking advantage of the views and connection with the town.

The creation of a new public square is also not interrupted by Falaise Road and with all the outdoor sports and parking to the west there is the retention of openness at this lower end of the site.

This option splits the indoor facilities and outdoor facilities across Falaise Road which would require the consideration of an outdoor sports hub to service the relevant sports. This option, with the outdoor bowls green re-located to the north of the west side of Falaise Road, creates potential to retain a smaller and more efficient indoor bowls centre, bringing the indoor and outdoor bowls together in a more coordinated manner.



Figure 6.3 Site Plan 2



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### Site Plan 2

This site plan option retains the approach of shared public space and the opportunity for the new public square. The public square is, however, in closer proximity to Falaise Road and would require a solution for coach parking to have been identified.

This option relocates all indoor and outdoor facilities on the one site. However, this results in less connected outdoor sports, especially the BMX/skatepark as currently set out.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] There is also the loss of the linkages of the new facilities to the seafront, Pier and the town for these proposed flagship projects.

## 7. Outline Business Case and Evaluation Section

### 7.1 Introduction

The leisure and cultural facilities in Hastings (Summerfields Leisure Centre, Falaise Fitness Centre and the White Rock Theatre) are approaching the end of their useful economic life and are in urgent need of major capital investment to secure their long-term futures and contribute to the economic and cultural regeneration of Hastings.

This study has found that a do minimum approach is unlikely to be a long-term or viable option and a major redevelopment is required to deliver commercially viable facilities that meet the current and future leisure and cultural needs of Hastings residents and visitors.

The Outline Business Case (OBC) has been prepared in accordance with the HM Treasury “Guide to Developing the Project Business Case” and applying the Five Case Model Methodology.

The OBC makes the case for change, identifying a preferred option which optimises public value following a detailed options appraisal, setting out a potential procurement solution and confirming the affordability and VFM of the preferred option and the arrangements for the successful delivery of the project.

The OBC sets out the:

- **Strategic Case** for redeveloping the facilities that aligns with Council, regional and national strategies and priorities, supported by a robust needs’ analysis and a clear definition of the outcomes and benefits sought.

- **Economic Case** for change based on a detailed options appraisal against a set of clear critical success factors that has identified a preferred redevelopment and future operating option.
- **Commercial Case** for the redevelopment of the facilities that would enable an operator to be procured who would deliver the financial, leisure, cultural and social value outcomes sought by the Council.
- **Financial Case** demonstrating that the preferred redevelopment and operating options are affordable and would deliver the best VFM outcome for the Council over the long term.
- **Management Case** demonstrating that the redevelopment project and future operating arrangements can be successfully delivered by the Council and the outcomes and benefits sought achieved.

The preferred option (Option C) involves the replacement of the existing facilities with a new, enhanced leisure centre, enhanced outdoor provision and entertainment centre (but not at this stage the arts centre) as part of a wider mixed-use redevelopment of the Bohemia site that involves:

- Demolition of the existing Summerfields Leisure Centre, Falaise Fitness Centre and the White Rock Theatre.
- The construction of a new wet and dry leisure centre.
- The construction of a new entertainments centre (and potential arts centre).
- The creation of an outdoor sports hub.
- The creation of a new public square and event space with improved access to the town centre, public transport and the Hastings Pier and seafront.

○ [REDACTED]

- Procurement of an experienced external operator (or operators) to manage the new leisure and cultural facilities under a long-term outcome-based contract.

The new facilities would be expected to generate a revenue surplus for the Council which would help offset some of the costs of financing the required capital investment. The total net costs of the preferred redevelopment option at £37.3m over 25 years would be less than those of the do minimum refurbishment option, confirming the affordability and VFM of the redevelopment project.

The business case set out in this section is a critical part of the overall feasibility study and will help place the Council in a position to seek approval for progression to the next stage of the project and the development of the design brief.

## 7.2 Strategic Case

### 7.2.1 The redevelopment proposal

The project involves the replacement of the existing facilities as part of wider mixed-use redevelopment of the Bohemia site to create a financially viable leisure and cultural destination that meets the sport, leisure and cultural needs of Hastings residents and visitors and enhances the overall Hastings tourism offer.

### 7.2.2 The case for change

The Bohemia leisure and culture development will contribute towards a number of local, regional and national strategies and plans which are included in Section 4.

The government’s ‘Sporting Futures’, a strategy for an active nation, and the subsequent Sport England strategy ‘Towards an Active Nation’ look beyond simple participation to how sport changes lives and becomes a

force for good. The strategy seeks to increase the number of people who engage in sport and activity, not for its own sake but for the wider benefits it can bring, in terms of physical and mental wellbeing and individual, community and economic development.

Sport England’s contribution to support delivery against the five government outcomes focuses on two areas, each with a number of specific aims, which are:

- More people from every background regularly and meaningfully engaging in sport and physical activity
- Inactive people becoming active
- More resilient habits
- More positive attitudes among young people
- More diverse volunteers
- Improved progression and inclusion in talent development
- A more productive, sustainable and responsible sport sector
- A more demand-led sport sector that welcomes everyone
- Improved governance
- Improved financial efficiency
- Increased and more diverse revenue generation
- Increased diversity of leadership
- A diverse and productive workforce

The Bohemia leisure and culture development will contribute to the aims within these two areas as follows:

*More people from every background regularly and meaningfully engaging in sport and physical activity.*

The project will:

- Increase the number of people regularly taking part across a wide range of sports, with a focus on reaching out to the less active within the local community and working closely with resident clubs.

- Increase the number of leisure and community events being held at the venue and increase the opportunities for residents to participate in and attend such events, especially young people.
- Continue to provide a base for sports clubs to identify and nurture talent.

*A more productive, sustainable and responsible sport sector.*

The project will:

- Provide better quality facilities to satisfy existing demand as well as creating new activity areas to attract new users.
- Improve governance through the procurement of a new operating partnership.
- Create a leisure venue to provide high quality training and development facilities to support sports clubs.
- Deliver a financially robust centre with enhanced and diversified revenue generation and more efficient operations.

### 7.2.3 User Needs Analysis

Extensive consultation has been undertaken with the sports users, clubs, NGBs and other cultural organisations who currently use or would like to utilise the leisure and cultural facilities. The wide range of consultees is set out in in Section 4 of this strategic report, the needs analysis findings can be summarised as:

- The facilities provided at Summerfields, Falaise and White Rock are no longer fit for purpose.
- Access around the Bohemia site and between the town centre, transport hubs and seafront is confusing and unclear.
- Footfall and participation in leisure and cultural activities would be increased with modern, flexible facilities that offered a more varied programme of activities.

- More needs to be provided to attract new users into the venues, especially the less active within Hastings and tourists from outside the town.

### 7.2.4 Improved Operating Arrangements

[REDACTED]

[REDACTED]

### 7.2.5 Benefits

A redeveloped Bohemia leisure and cultural offer would bring a number of benefits for the Council, local residents and visitors, including:

- Creating a new integrated leisure and cultural venues for Hastings with high quality facilities that increase opportunities for local residents and visitors to participate in leisure and cultural activities.
- Securing a long-term future for sport and the arts within Hastings and raising the profile of Hastings as an attractive place to live, work and visit.

- Financially viable facilities that generate an operating surplus and do not require a subsidy from the Council.
- More energy efficient and environmentally friendly facilities with a reduced carbon footprint, which aligns with the Council’s climate emergency position of being carbon neutral by 2030.

### 7.3 Economic Case

#### 7.3.1 Introduction

This section of the business case sets out the need for the Bohemia leisure and culture facilities project based on a detailed options appraisal against a set of clear critical success factors that has identified the preferred development option.

#### 7.3.2 Critical Success Factors

A list of Critical Success Factors (CSFs) the project must achieve have been identified, against which potential options have been assessed. These CSFs for the project are:

- Increase participation in leisure and culture - promoting healthier and more engaged lives
- Provide a long-term solution for sport, culture and community facilities in Hastings and East Sussex
- Act as a catalyst for the regeneration of Bohemia and overall development of Hastings including the visitor economy
- Provide a positive contribution to Climate Change agenda
- Offer affordability
- Offer long-term financial sustainability
- Integrate and enhance open space
- Have achievable Timescale and Deliverability

#### 7.3.3 Long List Options

A number of long list options for the redevelopment of the leisure and cultural facilities have been appraised against the CSFs. The options considered were:

##### Do nothing

This option would involve the Council continuing to support the existing leisure and cultural venues with no investment in the assets. There would be an increase in the net operating costs of the facilities and there would be concerns about the long-term future of the buildings without investment, given the age of the buildings and their current condition. Therefore, **doing nothing is no longer a viable option and has consequently been discounted.**

##### Disposal of the facilities

This option would involve the Council transferring the sites to a 3<sup>rd</sup> party operator(s) under a long lease. The costs associated with bringing the facilities up to a modern standard of provision would limit any commercial interest, without major upfront investment from the Council and retention of some of its landlord obligations. Given the likely investment costs to the Council together with the lack of certainty that any future operator(s) would protect and promote affordable access, as well as ongoing landlord obligations, this **option is unlikely to be deliverable and has consequently been discounted.**

##### Do minimum

This option would involve undertaking the minimum amount of works required to bring the facilities up to modern standards and secure the long-term future of the venues. **This option has been shortlisted as the base line model against which other shortlisted options can be compared.**

**Demolish facilities and develop like for like replacement leisure centre and new entertainment centre.**

This option would involve the existing facilities being demolished and replacement leisure and entertainment centres being developed on a comparable scale, securing a long-term future for the venues and helping catalyse the regeneration of Bohemia. It should be noted that whilst the study considers a like for like replacement of Summerfields Leisure Centre, it does not consider a like for like replacement of the White Rock Theatre due to the inherent design and shortcomings of the current venue. Whilst this option would not be the cheapest option in terms of upfront investment, it is expected to deliver the best overall financial outcome and **this option has therefore been shortlisted.**

**Demolish facilities and develop enhanced replacement**

This option would involve the existing facilities being demolished and replaced with enhanced leisure and cultural facilities, securing a long-term future for the venues, increasing footfall and participation, and helping catalyse the regeneration of Bohemia. Whilst this option would be the most expensive in terms of upfront investment, it is expected to deliver a financial outcome comparable with other options and it would deliver the highest impact in terms of visitor spend and other social value outcomes. **Therefore, this option has also been shortlisted.**

**7.3.4 Short Listed Redevelopment Options**

Five development options have been shortlisted for further detailed analysis. These are:

**Option A: Do Minimum Refurbishment**

This option sets out the costs of retaining the existing venues in their current configuration with the necessary works to upgrade the facilities to modern standards and to extend their lifespan for a further 25 years.

**Option B: Like for like replacement of Leisure Centre and a New Entertainment Centre and Enhanced Outdoor Provision**

In this scenario, the existing facilities are demolished and replaced with comparable new venues that would include:

- New 4,916m<sup>2</sup> leisure centre with 25m 6 lane pool, teaching pool, 120 station gym, 2 studios, 6 court sports hall, squash courts and soft play
- New entertainment centre with 1,200 seat/1,800 standing main hall and a destination café/restaurant shared with the leisure centre
- Public open space and events area
- New outdoor sports hub with all-weather 3G pitch, BMX and skatepark, tennis courts and bowling greens
- 300 space car parking

**Option C: Replacement Enhanced Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision**

As per Option B, but with enhanced 8,894m<sup>2</sup> leisure facilities including larger 8 lane pool, 150 station gym, 3 studios and leisure waters.

**Option D: Replacement Enhanced Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision and Arts Centre**

As per Option C but with an additional arts centre consisting of a 250 seat/500 standing second venue and two dance/rehearsal studios.

**Option E: Extensively Enhanced Replacement Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision and Arts Centre**

As per Option C but with a larger leisure pool.

The financial impact of each of the proposed development options has been considered, setting out the case for capital investment based on the long-term revenue impact of each option.

This will help inform and guide the Council on where best to direct the significant public investment required to deliver a more sustainable future for leisure and culture and maximise the leisure, arts, health and wider social outcomes.

## 7.4 Evaluation Framework

### 7.4.1 Introduction to Evaluation Framework

Having reviewed the general advantages and disadvantages of each of the options presented, alongside the overall capital costs the options are now reviewed against an evaluation framework which looks to establish which of the options is the most viable and sustainable solution for the Council and the local community. Each option has been evaluated according to a set of weighted financial and non-financial criteria. These are set out below and cover a number of the strategic priorities, consultation headlines and the aims and aspirations of the Council (as set out in the brief). These criteria have been reviewed and agreed by the Bohemia Project Team and Senior Officers with the Consultant Team.

### 7.4.2 Criteria for Evaluation

Each option has been evaluated and scored against a set of weighted financial and non-financial criteria to help with a consistent approach to appraising them. The criteria that have been utilised are as follows:

- The extent to which the development will lead to an increase in participation in leisure, physical activity and culture and promote more active, healthy and engaged lifestyles.
- The extent to which the investment will provide a long-term solution for enhanced leisure and cultural facilities in Hastings and East Sussex.
- Act as a catalyst for the priority regeneration of Bohemia and overall development of Hastings, including the visitor economy.
- Provide a positive contribution to the Climate Change agenda.
- The affordability of the development option and capital costs.

- The long-term financial sustainability of the option and the revenue impact.
- The extent to which the option integrates and enhances the open space across Bohemia.
- The potential development timescales and deliverability associated with the respective option.

### 7.4.3 Assumptions

The construction period is assumed to be 6-12 months for refurbishments and 18-24 months for new build, with construction expenditures spread evenly over these periods. Works would be phased to ensure that the current facilities remain open whilst any new build is being developed within the new build scenarios.

Alongside the detailed operational revenue planning that has been undertaken for each option, the capital delivery programme for funding the project has also been set in alignment with the Council's own internal financial model. Each option has been modelled with funding provided through borrowing. The new build options have been factored over a 40-year period with the refurbishment option over 25 years. Each option has an interest rate of 3% (based on Public Loans Work Board published interest rates at the time of this report).

### 7.4.4 Evaluation Scores

In order to compare the options in a consistent manner, we have scored the non-financial criteria out of 5, using the scale that is indicated in Figure 7.1 below.

**Figure 7.1: Scoring Criteria**

Criteria	Score
Requirements met, no reservations at all	5
Requirements met, but with some reservations	4
Requirements met adequately, but with reservations	3
Requirements only partially met	2
Significant reservations and unlikely to be acceptable	1
Fails to meet requirements	0

Figure 7.2 sets out the non-financial analysis of the options against the evaluation criteria.

**Figure 7.2: Evaluation of the Options**

Evaluation Criteria	Weighting %	A	Score	B	Score	C	Score	D	Score	E	Score
Increase participation in sport and culture - promoting healthier and more engaged lives	20	1	20	3	60	4	80	5	100	5	100
Provide a long-term solution for sport, culture and community facilities in HBC and E Sussex	10	1	10	3	30	5	50	5	50	5	50
Act as a catalyst for the priority regeneration of Bohemia and overall development of Hastings including the visitor economy	10	1	10	3	30	5	50	5	50	5	50
Provide a positive contribution to Climate Change agenda	10	2	20	4	40	4	40	4	40	3	30
Affordability	20	3	60	5	100	4	80	3	60	1	20
Long term financial sustainability	15	1	15	3	45	4	60	3	45	3	45
Integrate and Enhance open space	10	1	10	4	40	3	30	2	20	2	20
Timescale and Deliverability	5	1	5	3	15	3	15	3	15	2	10
<b>TOTAL SCORE</b>	<b>100</b>	<b>A</b>	<b>150</b>	<b>B</b>	<b>360</b>	<b>C</b>	<b>405</b>	<b>D</b>	<b>380</b>	<b>E</b>	<b>325</b>

#### 7.4.5 Evaluation Review

Commentary and evaluation of the score received by each option is provided below.

##### ***Option A – Refurbishment of Summerfields Leisure Centre and White Rock Theatre – Score of 150***

In effect, this option fails to address a number of key strategic objectives and priorities, not least the aim of providing new facilities at the site that support an aspiration to increase levels of participation in leisure and cultural activity within Hastings.

This option has the lowest capital cost requirement but does not provide a long-term solution for either of the two lead facilities or the Bohemia area. It does not enhance the facility mix and range of activities that can be offered and does not include any investment into facilities within the open space.

However, whilst for the leisure centre the pool hall is refurbished, this option does not include the opportunity to increase the size and flexibility of the water space, which is a significant barrier to increasing participation in aquatics activity at the site. Likewise, for the White Rock Theatre this does not address any of the shortcomings of the current theatre space.

Whilst in pure capital outlay terms this option comes with a lower cost, the Consultant Team feel that this option would to an extent only “paper over the cracks” in many areas of both ageing facilities. It is our view that it does not provide a solution that resolves all identified shortfalls within the leisure centre and theatre.

It is also important to note that the works involved within the refurbishment and remodelling of the centre would clearly disrupt service provision at the site. The work can be phased to ensure that the leisure

centre does not have to close for an extended period but there will be times when key areas of the facility, such as the pool hall, would be out of commission whilst works were undertaken. The theatre would need to close for a significant period.

This option does very little for the overall regeneration or enhancement of the community offer across Bohemia and is unlikely to secure funding from external sources or indeed to be viewed as favourable for the internal use of resources.

##### ***Option B Direct Replacement Leisure Centre + New Entertainment Centre + Outdoor Facilities – Score 360***

The provision of a new build leisure centre and entertainment centre is very positive for Hastings given the age and condition of the current facilities. The enhanced outdoor sports facilities and the potential development of a new public square is also a notable improvement on the current poor status of the outdoor space for leisure and culture and a key factor in the overall regeneration of Bohemia.

This facility option for leisure however does not provide much in the way of additional provision and its impact on increasing participation and revenue generation is not as highly scored as the other options. The focus on a lower budget and direct replacement does not address the wider demands and needs for Hastings. Whilst the water space is to be more flexible and provide a better programme, the capacity of a like for like replacement is not extended as it is with other options particularly for leisure water provision.

The redevelopment of the White Rock Theatre to a new entertainment centre is extremely positive, addressing the key market demand for culture within Hastings and working alongside other regional facilities.

The scale of the centre enables it to operate without subsidy. This option, however, does not address the wider arts centre needs that have been identified within the analysis, consultation and the brief.

**Option C - Enhanced Leisure Centre + New Entertainment Centre + Enhanced Outdoor Facilities – Score 405**

This option scored the highest total across all the options. It provides a leisure centre that offers larger facilities, including an increased level of water space, leisure water, a better designed sports hall space, a bigger health and fitness suite and larger studios. All of these extended facilities alongside the enhanced outdoor spaces, will improve the capacity at the site. This will help increase the opportunities for participation and significantly increasing income generation.

This option secured high scores for increasing participation in sport and culture as well as addressing the facility needs for Hastings in terms of greater water space and enhanced outdoor facilities.

As with Option B it provides a new build facility that can be developed in a more effective and efficient manner to meet modern building requirements, investigate effective ways to work towards being carbon neutral for Hastings and meet wider market demands and needs.

As detailed earlier within the business case the additional capacity of the leisure offer enables a better financial performance for the leisure and provides a longer-term net position very similar to Options A and B with a higher level of specification and range of services.

As with Option B the entertainment centre meets the leading market demand for culture within Hastings.

This is considered the preferred delivery option for the Council based on the financial analysis and this combined financial and non-financial analysis by the Consultant Team.

**Option D - Enhanced Leisure Centre + New Entertainment Centre + Arts Centre + Enhanced Outdoor Facilities – Score 380**

This option scored second highest as it provides the additional arts centre to complement the entertainment centre with the same facility mix as Option C.

Option D however has additional financial risks associated with the arts centre. Not only the additional capital costs and borrowing but also the

[REDACTED]

This option does meet all of the needs of the consultation both for leisure and culture and is a very close match to meeting all aspects of the brief. However, given the financial profile, Option D is considered only achievable for Hastings if they can lever in additional capital funding. The financial analysis and business case are currently based upon the assumed capital receipts for the current Summerfields Leisure Centre,

[REDACTED]

Option D with its wider specification for arts is considered only achievable if additional capital could be secured to reduce the capital financing gap and the overall net delivery cost to the Council.

**Option E - Leisure Waterpark + New Entertainment Centre + Arts Centre + Enhanced Outdoor Facilities – Score 325**

This option addresses the original wider needs of the Council’s brief and is the closest match to the original facility aims of the study providing a

destination leisure waterpark venue and entertainment venue and arts centre.

The cost and deliverability issues identified for Option E have had an impact on the scoring of this option as the increased leisure waters at this scale provide only small net impact on the revenue in comparison to the impact on capital and running costs. The Consultant Team are concerned over the affordability of Option E for the leisure set alongside the subsidy required for the arts centre as part of the overall mix. The larger scale leisure facility would also put significant pressure on car parking and potentially compromise the wider outdoor sports provision needs.

#### 7.4.6 Option Scoring Summary

Given the results of the evaluation, the refurbishment option scores very poorly and appears to be the least viable option as it does not address the key strategic priorities and objectives of the brief and the aspirations of the Council. The longer term financial costs of Option A compare very poorly to the new build options given the ongoing subsidy associated with both the leisure and culture facilities, which will deliver little improvement on the current programme and activity.

Given that new build and redevelopment of the two facilities is the most effective use of the Council's investment the evaluation of what level of investment and service has directed us towards the option which delivers the best outcomes for the Council. Option B does provide a very positive solution at a lower cost than those that are associated with the other new build project but is limited in its ability to increase the capacity of the offer for leisure. This is particularly relevant when considering the swimming pool space requirements in Hastings and the evident demand.

The financial analysis has shown that Option C provides a notable increase on leisure capacity, water space alongside the provision of a new

entertainment centre and scores the highest. Therefore, this is emerging as the preferred option for the Consultant Team.

Options D and E are considered as higher risk for the Council to deliver with the current potential development funding package that has been identified so far by the Bohemia Project Team. Option D is potentially deliverable, meeting the majority needs of the original brief but only if additional resources can be identified from other locations or developments in Hastings. The Consultant Team view Option E as too high risk and unaffordable for the Council to pursue. The view of the Consultant Team is that the potential delivery of Option B is a minimum, Option C is the preferred priority and Option D is subject to additional development funding opportunities or external grant aid to be identified by the Council.

Option C, the enhanced leisure and cultural offer scores best overall of the shortlisted option against the weighted evaluation criteria and **has been identified as the preferred development option.**

#### 7.5 Future Management Options

The existing management and operational arrangements for both the leisure facilities and the White Rock Theatre are based on the Council seeking to achieve the best financial outcome, whilst ensuring the venues continue to offer an affordable and accessible programme of leisure and cultural activities. The leisure facilities at Summerfields and Falaise are managed under a long-term management contract by Freedom Leisure, a Sussex based leisure charity that manages a number of public leisure centres across the Sussex and elsewhere in the UK. The White Rock Theatre is managed by HQ Theatres, a leading commercial operator of theatres and cultural venues in the UK. The leisure centre is not subsidised by the Council, although it does have to invest in the facilities as part of its landlord obligations. The theatre contract is currently on a

£350,000 per annum subsidy which has been reduced from £650,000 in previous years.

Going forward any future management arrangements need to build on and embed the strategic priorities of the Council, focused on increasing community participation in leisure and cultural activities and delivering improvements in residents’ health and wellbeing, whilst ensuring the facilities are operated as efficiently as possible.

[Redacted text block]

**7.5.1 Long List of Service Delivery Options**

There are several service delivery approaches that are usually considered as part of management options appraisals for community leisure and cultural facilities. These are highlighted within this section. However, given the current arrangements it is the view of the Consultant Team that some options can be eliminated from the process at an early stage.

Consideration has been given to the operating model and the configuration of facilities and the potential variations of delivery solutions. It is assumed that the Council would retain ownership of the built assets and that TUPE would apply in all instances.

The broad delivery options that have been considered and the likely suitability of each is summarised as follows:

**7.5.2 Direct In House Provision**

The Council no longer manage or operate any major leisure or cultural facilities, and there is no existing leisure or culture management team or experience of operating facilities of this nature. Bringing outsourced leisure services back in house very rarely if ever, occurs as the costs of doing so are often significant. It would result in the loss of the VAT exemptions

[Redacted text block]

The Council would need to undertake a detailed appraisal of the likely costs of bringing the services back in house against the potential benefits.

As control and influence can be achieved through effective partnership and intelligent client arrangements, there is no obvious case for considering this option further. This option is not recommended for further consideration.

**7.5.3 Establishing a wholly owned and controlled not for profit company**

Local authorities have the powers to establish a wholly owned and controlled company to deliver services (often referred to as a WOC or LATC). This in effect is similar to direct in-house provision, although there are currently NNDR (National Non-Domestic Rates) and VAT advantages to this type of model. For the same reasons as highlighted above in option a (direct in-house provision), that is the lack of venue management expertise and capacity and TUPE costs, this option is not recommended for further consideration.

**7.5.4 Establishing a new Charitable Trust (NPDO)**

A non-profit distributing organisation (NPDO), usually referred to as a charitable trust, is a well-established delivery model for leisure and cultural facilities across the UK. The origins of the current leisure operator

(Freedom Leisure) were developed through this route. The establishment of local trusts, which were generally formed from within local authorities, became a popular delivery model up until 2016 where NNDR, VAT advantages and increased freedoms to operate in a more streamlined and commercial manner were the main drivers.

In 2016, new EU Procurement Guidance required newly established trusts to compete in an open procurement exercise. For the leisure centre, a new trust is unlikely to be able to successfully compete in the open market against established operators. There are numerous costs associated with the establishment of a new trust including: brand development; head office overheads; recruiting trustees; and forming a Board. There are also other factors to consider including: the cost of procurement (a ‘bid team’); development of Business to Business relationships (equipment, supplies, agencies, utilities etc.); and ensuring the new trust has sufficient reserves at the outset to enable them to manage cash flow pressures. Establishing a new Culture Trust would have similar costs and the commercial nature of the Entertainment Centre proposed does not lend itself to a non-profit ethos.

Given the cost of establishing and procuring a new trust, combined with the low probability of a successful procurement outcome for the trust, this option is not recommended for further consideration.

#### **7.5.5 Existing Charitable Trust**

There is a well-established and mature market for leisure where charitable trusts already have a substantial market share of public leisure provision. There are several ‘single contract’ trusts in existence across the UK as well as numerous larger operators who have expanded considerably from their original ‘host’ authority and now operate a sizeable portfolio containing multiple contracts (such as Freedom Leisure). These larger trusts often absorb the smaller trusts through a procurement exercise. They actively compete with each other and private

sector/hybrid operators. Whilst leisure trusts are prominent, there are a number that operate across both the cultural and leisure spectrum. However, these are often more locally focussed than the larger leisure trusts. This model currently secures NNDR and VAT advantages brought about via their charitable status.

In the culture sector, most trusts operate a single venue or organisation and there are no suitable trusts in Hastings. [REDACTED]

[REDACTED] Charitable Trusts are a successfully proven delivery model and should be considered further by the Council. This option is recommended for further consideration.

#### **7.5.6 Commercial Operators / Private Sector Businesses**

There have been notable changes within the private sector in recent years and all of the main commercial leisure management operators have established their own NPDO model operating vehicles. As NPDO businesses, they benefit from a range of NNDR and VAT advantages but are distinct from Charitable Trusts and social enterprises due to their links back to private sector, profit-making businesses which often have contractual controlling powers.

In the cultural sector there are a small number of commercial operators and one or two who operate both leisure and culture facilities. Access to capital funding via private sector organisations was historically viewed as an advantage, although in recent years access to prudential borrowing in the public sector has effectively nullified this advantage. For the purposes of this stage of options appraisal, private sector businesses operating NPDO models are recommended for further consideration.

#### **7.5.7 Community Asset Transfer (CAT)**

Although promoted by government as a tool to provide local communities with more and direct control over local facilities, the

Community Asset Transfer (CAT) model has generally been successful for smaller scale community facilities i.e. local swimming pools and sports pavilions, often when facing closure. A new or existing community group would not have the capacity, capability or financial standing to take on the operation of the large leisure and cultural venues envisaged. Whilst there may be scope to facilitate CAT arrangements for some of the outdoor sports hub facilities, this option is not recommended for further consideration.

#### 7.5.8 Other

There are other theoretical models such as a Public Service Mutual and Privatisation and divesting from provision entirely. However, neither option is considered viable. The Public Service Mutual route requires a body prepared and capable of operating major leisure and cultural facilities, in addition to successfully winning a procurement exercise. It is not considered viable for an entity of this scale.

Privatisation and fully divesting from provision are unlikely to be attractive to a wholly commercial operator where commercial development opportunities may be limited. Additionally, this approach would not be consistent with the Council's outcome requirements of ensuring affordable access to leisure and cultural opportunities. It is likely to be highly contentious and damaging to relations with stakeholders.

In all delivery models considered above, the facilities would remain in the ownership of the Council but would be managed and operated by a third party under a management agreement and long-term lease. In all instances, TUPE would apply if an operator other than the current incumbents were engaged to operate the facilities.

#### 7.5.9 Potential for Integrated Management Arrangements

The preferred option envisages the new leisure and cultural venues sitting alongside each other around a new public open space. Whilst the current facilities are managed separately by specialist leisure and entertainment providers, there may be scope for one operator to manage both venues. [REDACTED]

[REDACTED] This could bring economies of scale and scope for more efficient operations.

The views of the leisure operators suggest that some are, in principle, open to combined management of the leisure and cultural facilities. That said, experience from recent procurement exercises indicates that it is essential that the cultural facilities are managed by an operator with extensive experience and credentials in this market, which most leisure operators lack. It is likely that the separate management of the leisure and cultural facilities will deliver the best outcome for the Council, with some scope for closer working around the food and drink offer.

#### 7.5.10 Short List of Service Delivery Options

Following the initial assessment of the broad options potentially available, there are three core delivery options that are recommended to be taken forward for further consideration. These are:

- Charitable Trust
- Private sector NPDO hybrid
- Commercial operator

#### 7.5.11 Conclusion

There is unlikely to be any discernible difference between an established charitable trust and the private sector with an established NPDO in terms of the financial offer and the Council having the security of its contractual outcomes delivered. Given the need to maximise market interest in the future management of the redeveloped facilities it is therefore important to ensure that established charitable trusts, private sector hybrid operators and purely commercial operators are encouraged to participate

in any future procurement exercise for both the leisure and cultural venues.

## **7.6 Commercial Case**

### **7.6.1 Introduction**

This section of the business case sets out how the procurement of the preferred option will be delivered in accordance with procurement requirements.

### **7.6.2 Market Engagement**

Some informal market engagement has been undertaken with the existing leisure and culture operators to inform the procurement strategy and to identify likely market interest in operating redeveloped facilities.

### **7.6.3 Market Interest**

The discussions with the incumbent operators identified that there would be far more interest in operating new facilities rather than running refurbished venues with all the constraints this would entail, and that this would deliver a better financial outcome for the Council. The loss of provision whilst refurbishment works took place would be a significant concern for the operators as it would impact on their business plans. New build projects and continuity of provision are seen as being much lower risk for both the Council and the operators.

### **7.6.4 Procurement Process and Timetable**

Leisure and cultural management contracts tend to be procured in the form of a two-stage competitive tender process, following the qualification of potential operators, involving an initial detailed submission followed by evaluation and dialogue and then submission of a refined, final offer. The procurements take around 12 to 15 months to

complete followed by a 3-month mobilisation period before the contract commencing. This could run in parallel with the construction phase of the project so that the new facilities would be operated under the new contract arrangements.

Leisure operators prefer to use a standard suite of contract documents which they are familiar with, consisting of a management contract (or concession contract) with a detailed services specification, lease and schedule of payment and performance arrangements. Sport England have issued a revised version of their standard contract documents for leisure projects and using this documentation is likely to help any funding submission from Sport England.

### **7.6.5 Allocation of Trading and Property Risks**

Operators are generally prepared to take on all trading and property risks associated with operating and maintaining leisure and cultural facilities, except for latent defects and structural risks. This assumes the buildings are in relatively good condition and detailed conditions surveys have been undertaken, or in the case of new buildings warranties can be novated.

### **7.6.6 Rate Relief**

All of the leisure operators utilise some form of not for profit structure to take advantage of the mandatory and discretionary rate relief available to not for profits.

### **7.6.7 Length of Contract**

Current leisure management contracts tend to be at least 15 years in length (usually 10 years with an option to extend by 5), with some extending to 25 years if a capital contribution is required.

### **7.6.8 Pricing and Programming**

Operators will require a degree of commercial freedom around programming and pricing, to ensure that they can optimise income generation and submit a competitive financial proposal to the Council. This is especially true around fitness and swimming lessons as these two activities account for a large proportion of any leisure centres' total income. For the Entertainment Centre a detailed set of KPI's can be agreed with the operator covering programme and other matters.

### 7.6.9 Procurement Strategy

To enable a new operator to be appointed and allow for a 3-month mobilisation period, a decision would not need to be taken around procuring an operator until the construction phase had commenced, assuming a build phase of at least 18 months.

The following key activities would need to be completed by the Council:

- Secure formal approvals for the project and the funding package.
- Sufficiently develop the design and costs of the development proposals, so operators have clarity as to the future layout, schedule and range of facilities they are bidding to manage.
- Prepare a schedule of works that details how the complex phasing of the various stages of the development project would take place.
- Prepare a lifecycle maintenance cost plan that provides sufficient detail of the projected costs of maintaining the new facilities over the term of the new contract.
- Prepare and approve the formal tender and contract documentation, including the management contract, lease, specification, maintenance obligations and performance management regime.
- Collate the required tender background information, including financial data and user information.
- Prepare a shadow financial model setting out the projected income and costs of operating the redeveloped facilities to provide the Council with a minimum expected future revenue position against

which tender submissions can be evaluated and future affordability and value for money can be determined.

### 7.6.10 Proposed Procurement Timetable

An indicative procurement timetable is set out below for a management contract to give an illustration of the various activities that need to be completed.

STAGE	DATE
Issue Contract Notice	Month 1
Pre-Qualification Stage	Month 2
Invitation to Submit Initial Proposals	Month 3
Submission of Initial Proposals	Month 5
Evaluation Stage	Month 6 – 7
Invitation to Submit Detailed Proposals	Month 8
Submission of Detailed Proposals	Month 11
Evaluation Stage	Month 12
Appoint Preferred Partner and Due Diligence	Month 13-14
Contracts signed	Month 15
New Contract commences	Month 18

## 7.7 Financial Case

### 7.7.1 Introduction

This section of the report sets out the projected net financial impact to the Council of each of the development options. The financial case demonstrates that the preferred development option is affordable and

will deliver better VFM than the other development options and the baseline do minimum option.

### 7.7.2 Overview of Options – Net Costs

Each of the development options has been appraised and a 25 year financial projection prepared to provide an illustration of the likely net costs of each scheme.

The focus has been to identify those options that will generate the optimum net financial impact based on the initial upfront capital investment and ongoing revenue costs.

All figures are at current prices with no adjustment for inflation. In some activity areas the figures have been adjusted in the first 2-3 years to allow the impact of the investment proposals to take effect and for usage to increase.

Further work is required to better understand the potential phasing of the funding into the project from the residential development and the impact this will have on the project and Council’s cash flow.

### 7.7.3 The Development Options

#### ***Option A: Do minimum Refurbishment***

This option sets out the costs of retaining the existing venues in their current configuration with the necessary works to upgrade the facilities to modern standards and to extend their lifespan for a further 25 years.

#### ***Option B: Like for like replacement of Leisure Centre and a New Entertainment Centre***

In this scenario, the existing facilities are demolished and replaced with comparable new venues that would include the following:

- New 4,916m<sup>2</sup> leisure centre with 25m 6 lane pool, teaching pool, 120 station gym, 2 studios, 6 court sports hall, squash courts and soft play
- New entertainment centre with 1,200 capacity main hall and café/restaurant
- Public open space and events area
- New outdoor sports hub with all-weather 4G pitches, skatepark, tennis courts and bowling greens
- 300 space car parking

#### ***Option C: Replacement Enhanced Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision***

As per Option B, but with enhanced 8,894m<sup>2</sup> leisure facilities including larger 8 lane pool, 150 station gym, 3 studios and leisure waters.

#### ***Option D: Replacement Enhanced Leisure Centre, New Entertainment Centre and Enhanced Outdoor Provision and Arts Centre***

As per Option C but with an additional arts centre consisting of a 250 capacity second hall and two dance/rehearsal studios .

#### ***Option E: Replacement leisure and cultural facilities with extensively enhanced leisure and arts provision***

As per Option C but with a larger leisure pool.

Figure 7.3 summarises the overall income and expenditure for each development option (Year 3).

**Figure 7.3 – Annual Revenue Projections**

Option (000's)	Annual Revenue Position	Annual Financing Costs	Net Annual Costs	Net Costs Over 25 years	NPV
<b>A</b>					
Leisure	(£135)	(£517)	(£652)	(£16,298)	(£11,037)
Culture	(£350)	(£489)	(£839)	(£20,963)	(£13,820)
<b>Combined</b>	<b>(£485)</b>	<b>(£1,006)</b>	<b>(£1,490)</b>	<b>(£37,261)</b>	<b>(£24,857)</b>
<b>B</b>					
Leisure	£251	(£567)	(£315)	(£7,883)	(£5,197)
Culture	£0	(£1,081)	(£1,081)	(£27,017)	(£17,811)
External works	£0	(£94)	(£94)	(£2,356)	(£1,553)
<b>Combined</b>	<b>£251</b>	<b>(£1,742)</b>	<b>(£1,490)</b>	<b>(£37,257)</b>	<b>(£24,562)</b>
<b>C</b>					
Leisure	£404	(£1,218)	(£815)	(£20,369)	(13,429)
Culture	£0	(£1,068)	(£1,068)	(£26,700)	(17,602)
External works	£0	(£94)	(£94)	(£2,356)	(1,553)
<b>Combined</b>	<b>£404</b>	<b>(£2,381)</b>	<b>(£1,977)</b>	<b>(£49,426)</b>	<b>(32,584)</b>
<b>D</b>					
Leisure	£404	(£1,218)	(£815)	(£20,369)	(13,429)
Culture	(£250)	(£1,340)	(£1,590)	(£39,760)	(26,212)
External works	£0	(£94)	(£94)	(£2,356)	(1,553)
<b>Combined</b>	<b>£154</b>	<b>(£2,653)</b>	<b>(£2,499)</b>	<b>(£62,485)</b>	<b>(41,194)</b>
<b>E</b>					
Leisure	£292	(£1,661)	(£1,369)	(£34,231)	(£22,567)
Culture	(£250)	(£1,340)	(£1,590)	(£39,760)	(£26,212)
External works	£0	(£93)	(£93)	(£2,356)	(£1,553)
<b>Combined</b>	<b>£42</b>	<b>(£3,094)</b>	<b>(£3,052)</b>	<b>(£76,347)</b>	<b>(£50,333)</b>

**Figure 7.4 – Net Costs of Options**

Option £000's	Capital Costs	Indicative Funding	Net Capital & Revenue Costs	NPV Capital & Revenue Costs	Rank
<b>A</b>	<b>25,300</b>	<b>5,986</b>	<b>37,261</b>	<b>24,857</b>	<b>2</b>
<b>B</b>	<b>56,910</b>	<b>16,650</b>	<b>37,257</b>	<b>24,562</b>	<b>1</b>
<b>C</b>	<b>71,661</b>	<b>16,650</b>	<b>49,426</b>	<b>32,584</b>	<b>3</b>
<b>D</b>	<b>77,938</b>	<b>16,650</b>	<b>62,485</b>	<b>41,194</b>	<b>4</b>
<b>E</b>	<b>88,170</b>	<b>16,650</b>	<b>76,347</b>	<b>50,305</b>	<b>5</b>

Option B, the like for like development project, will have the lowest net project costs of £37.3m (£24.6m NPV) and makes a compelling case for investing more than the minimum required in order to deliver more extensive leisure, cultural, health and other social outcomes for a smaller overall investment. Option C, the enhanced leisure and cultural offer, would have a higher net project cost £49.4m (£32.6m), although this option has the potential to generate more external funding to reflect the increased provision and outcomes delivered. The do minimum option has similar net overall costs to Option B of £37.3m (£24.9m NPV) and whilst the upfront costs are lower, [REDACTED]

In addition, Option C will deliver higher footfall levels than a do minimum option, and would result in additional social value outcomes, both in terms of more people leading more active lives (and the subsequent health benefits that can bring) but also the development of an integrated leisure and cultural destination for Hastings.

#### 7.7.4 Income and Expenditure Assumptions

Appendix 3 details leading assumptions for the financial modelling and should be read in conjunction with this strategic report.

**7.7.5 Funding and Affordability**

Significant capital investment is required to fund the redevelopment of the facilities. The expectation is that the majority of the project will be funded by the Council by way of a long-term loan, with [REDACTED] and funding partners providing grants to support the wider social value benefits the project will deliver.

Based on the preferred Option C, the capital costs to be financed are £71.7m. This will be funded by the proceeds of the [REDACTED], external grants (£1m), and a 40-year Public Works Loan Board loan of £55.0m with a fixed interest rate of 3.00%.

[REDACTED]

Each revenue stream has been discounted under Green Book Guidance using a discount rate factor of 3.5%.

**7.7.6 Sensitivity Analysis**

To take into account the risks of interest rates rising in the period before the project commences and the funding is drawn down, a higher interest rate of 4% for the loan has been modelled.

The impact of a higher interest rate is that the costs of borrowing rise by around £7k per annum for every £1m of borrowings for each option. The financial impact is shown in Figure 7.5. Option A would now score higher

financially than the other options as the impact of the higher borrowing rate is lower due to the lower capital requirements of this option.

**Figure 7.5 – Net Costs of Options with higher interest rate**

Option	Net Capital & Revenue Costs	NPV Capital & Revenue Costs	Rank
A	40,144	26,758	1
B	44,565	29,380	2
C	59,415	39,170	3
D	73,618	48,533	4
E	95,653	63,060	5

Whilst the net costs of the refurbishment project are projected to be lower overall with the higher interest rate, it should be noted that these capital costs for the refurbishment of the leisure centre and theatre are based on high level estimated information that the Consultant Team have not been party to preparing or have been assessed in detail by the Council’s team. Neither of the facilities have had detailed condition surveys and it is highly likely the refurbishment costs would increase once more detailed survey work is carried out.

In addition, the do minimum option, whilst scoring higher on the higher interest rate financial profile, will not deliver on Hastings’ wider regeneration and tourism aspirations for Bohemia or the wider town, nor its carbon reduction targets. The difference between refurbishing outdated facilities and delivering new build, efficient facilities is only £4.4m over 25 years (£2.6m in NPV terms) which, given the wider social value and regeneration impact on Hastings the latter would offer, is considered by the Consultant Team to offer good value for money.

## 7.8 Management case

### 7.8.1 Introduction

This section of the OBC sets out how the project will be managed and successfully delivered in accordance with recognised best practice, both during planning and implementation and once the new venues open under new management arrangements.

### 7.8.2 Programme and project management

The Bohemia development project will need to be managed by a dedicated project team within the Council led by a Senior Council Officer.

There will need to be separate teams managing the development project and the procurement of the new management arrangements, supported by colleagues from within legal, finance, procurement and property departments. These teams will be assisted by suitably experienced specialist external advisors in areas such as design, technical services, procurement and legal.

Detailed delivery plans will be developed for each stage of the programme, including:

- Detailed development of the design brief
- Planning approvals
- Procurement and mobilisation of the new management arrangements
- Procurement of the redevelopment works contracts
- Planning the phasing of works to minimise disruption to users

### 7.8.3 Approach to management and delivery of benefits

The new management arrangements will be outcome focused and will contain a clear benefits realisation plan that has been agreed by the Council. The venue operator's performance will be measured by the Council against the delivery of these benefits, which will be quantifiable and measurable.

Benefits to be agreed and measured will be defined during the procurement process and are likely to cover the following areas:

- Increase in usage of the facilities overall and by key groups and demographics, such as young people
- Increase in physical activity rates in Hastings
- Increase in user satisfaction levels
- Increased tourism spends within Hastings
- Wider social value benefits

### 7.8.4 Post implementation evaluation arrangements

The Council will implement an appropriate performance management regime, with the venue operators tasked with providing the Council with regular information about their performance against defined outcomes and targets. This performance information will be agreed with the Council prior to contract commencement and subject to regular review to ensure it remains appropriate and relevant to the strategic priorities of the Council.

Where there are concerns regarding the operators' performance in delivering the defined outcomes and targets, the contracts will contain provisions to enable the Council to take action to protect its investment and the needs of users.

The contracts will also contain provisions allowing the Council to work with the operators to flex the services to better reflect changing user needs and the strategic priorities of the Council.

### 7.8.5 Contingency arrangements

The operating contracts will contain standard provisions to deal with a failure in the operators including step in rights, termination, re-tendering and compensation arrangements, to ensure there is continuity of service provision and minimal impact on the users.

## 8. Summary

It is clear from this strategic report and the overall options appraisal that investment into replacement facilities for Summerfields Leisure Centre and the White Rock Theatre should be the focus for the Council. The leisure and cultural offer at these facilities for Hastings residents is not only of a poor standard but the potential for significant future costs of maintaining and upgrading the current sub-standard facilities will soon become a reality for the Council.

The strategic report has set out the leading options for consideration and the financial appraisal focusing on the full delivery costs from a capital, revenue and financing perspective.

The starting point for the Council is clearly to examine the overall affordability of such a large-scale project and redevelopment of these two important facilities. There is also a notable amount of uncertainty at this stage over the full extent of enabling works for such a complex site. Our leading site option, at present, attempts to reduce some of that risk with

[REDACTED]

The Consultant Team have demonstrated that the provision of a new Leisure Centre and entertainment venue, alongside significant enhancements to the open space and opportunities for community activity at the site, can be a deliverable aspiration for Hasting Borough Council. The extent to which that leisure offer, particularly around extended water space and leisure waters, and the cultural offer, notably around the extended arts centre, will be dependent on the assessment by the Council on the affordability and opportunities to reduce the funding

gap set out in the initial financial analysis presented in this strategic report.

Whilst any decisions regarding the potential redevelopment of a new leisure centre, facilities and a cultural venue for Hastings will be governed by financial viability and affordability, the wider community benefit and the ability of the site to play an increased role in helping the Council meet aspirations across a wide range of agendas should not be overlooked. Investment into community facilities will support the Council’s work towards their own corporate aims and ambitions and also provide the regeneration of a key area that can have a lasting, long-term impact on strategic objectives. It is important for the Council to continue to engage the various key partners and organisations to ensure a continued strategic alignment with appropriate objectives.

The wider value of participation in leisure and culture is recognised across a range of policy areas, including health, crime, education, employment and regeneration. Bohemia already accommodates strategically important facilities within Hastings, and it is essential to ensure that it can continue to support the work of a range of local and national partners. The study site has the potential to support a sustained increase in the quality, quantity and breadth of leisure and culture and the arts for local people. Engaging a wide range of partner organisations that can potentially support aspects of the capital development, as well as the delivery of quality opportunities, will be of great benefit to the leisure and cultural landscape.

The Consultant Team are of the opinion that the opportunities for securing external funding for leisure, sport, culture, skills, health and education will be present for the Council alongside the wider regeneration funding opportunities linked to the town’s redevelopment. The significant contribution by these two facilities and the development of this priority site within Hastings to a wide range of priorities for

national partners requires further exploration and work by the Council. It should also be noted that further work by the Council is required to gain greater clarity on the [REDACTED]

[REDACTED]. The level of capital input that the Council can directly (or indirectly) contribute or gain from development (and funding) will have a marked impact on the level of provision for leisure and culture that the Council can meet for the Bohemia site and for Hastings overall.

The future of the Bohemia Masterplan and the evident priorities and needs for the provision of improved leisure and cultural facilities will require some key actions and decisions to be taken by Hastings Borough Council building on the evidence and initial direction provided within this strategic report. The Consultant Team consider that the main issues and key challenges associated with the overall project, and the actions that need to be taken to reduce the affordability gap in the first instance are all within the sphere of influence of the Council and it is clear that there is a desire to deliver an extended leisure, cultural and community offer within Bohemia and for Hastings that meets the needs and demands of a growing population and this evolving and developing town for many years to come. The Council is committed to investing in the future of Hastings and despite the key economic and budget challenges being faced in the public sector the proposals for the development of new leisure and culture facilities represent an exciting and achievable opportunity to deliver on that commitment.

# Agenda Item 5



**Agenda Item No:**

**Report to:** Cabinet

**Date of Meeting:** 6 January 2020

**Report Title:** Treasury Management Mid-Year Report 2019-20

**Report By:** Peter Grace  
Chief Finance Officer

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## **Purpose of Report**

This report advises the Cabinet of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Council to take account of any issues or concerns that have arisen since approving it in February 2019.

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## **Recommendation**

**Cabinet agree the Mid-Year report.**

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## **Reasons for Recommendations**

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2019). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet and full Council.

## Background

1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure in combination with funding from reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
3. Accordingly, treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

## Introduction

4. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by this Council In February 2018.
5. The primary requirements of the Code are as follows:
  - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
  - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
  - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.
6. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
  - An economic update for the first part of the 2019/20 financial year;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - The Council's capital expenditure (prudential indicators);
  - A review of the Council's investment portfolio for 2019/20;
  - A review of the Council's borrowing strategy for 2019/20;
  - A review of any debt rescheduling undertaken during 2019/20;
  - A review of compliance with Treasury and Prudential Limits for 2019/20.
7. The Committee will need to determine whether there are any issues that require the amendment of the Council's Treasury Management Strategy or Investment Policy and that they therefore wish to draw to the attention of Council.
  8. The Council has increased its levels of income generation and this entails new borrowing over potentially long periods, with consequent risks in terms of asset valuations, credit worthiness, cash and reserve fund availability. Such risks cannot be considered in isolation of all the issues facing the Council now and potentially in the future
  9. The Audit Committee will consider a similar report at their meeting on 22 January 2020.

## Economic Update

10. **UK.** Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020.
11. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January; however at the time of writing the general election on 12 December 2019 provides considerable uncertainty as to whether this will occur. Should it proceed a trade deal will need to be negotiated by the end of the transition period in December 2020.
12. While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed.
13. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%.
14. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid

recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence the MPC views inflation as causing little concern in the near future.

15. If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and both of the largest parties have made significant promises in their election manifestos to increase government spending.
16. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure. In addition, it has to be borne in mind that even if the post-election Parliament agrees the deal on 31 January 2020, the current transition period for negotiating the details of the terms of a trade deal with the EU only runs until 31 December 2020. This could prove to be an unrealistically short timetable for such major negotiations which leaves open two possibilities; one the need for an extension of negotiations, probably two years, or a no deal Brexit in December 2020.
17. As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in October to 1.5%. It is likely to remain close to or under 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.
18. With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, this was about half of what had been expected. The unemployment rate fell back again to a 44 year low of 3.8% on the Independent Labour Organisation measure in September, despite the fall in numbers employed, due to numbers leaving the work force.
19. Wage inflation has been edging down from a high point of 3.9% in July to 3.8% in August and now 3.6% in September, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.9%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

## **Interest rate forecasts**

20. The Council's treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9 October 2019 in respect of the PWLB.

## Interest rate Forecasts – December 2019 to March 2022

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

21. The above forecasts have been based on an assumption that there is some sort of agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

## The Council's Treasury Position – 30 September 2019

### Borrowing

22. The Council's debt and investment position at the 30 September 2019 was as follows

**Table 1 – Borrowing**

Debt	1 April 2019 Principal	Rate	Maturity	30 Sept 2019 Principal	Rate
PWLB	£7,500,000	4.80%	2033	£7,500,000	4.80%
PWLB	£909,027	3.78%	2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	3.78%	2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£215,148	1.66%	2026	£200,592	1.66%
PWLB	£1,000,000	2.92%	2056	£1,000,000	2.92%
PWLB	£1,000,000	3.08%	2046	£1,000,000	3.08%
PWLB	£1,000,000	3.01%	2036	£1,000,000	3.01%
PWLB	£1,000,000	2.30%	2026	£1,000,000	2.30%
PWLB	£2,000,000	2.80%	2054	£2,000,000	2.80%
PWLB	£1,000,000	2.42%	2028	£1,000,000	2.42%
PWLB	£2,000,000	2.53%	2057	£2,000,000	2.53%
PWLB	£2,000,000	2.50%	2059	£2,000,000	2.50%
PWLB	£2,000,000	2.48%	2060	£2,000,000	2.48%
PWLB (Annuity)	£7,113,729	2.53%	2057	£7,058,607	2.53%
PWLB (Annuity)	£8,232,534	2.72%	2057	£8,172,600	2.72%
PWLB	£2,000,000	1.98%	2028	£2,000,000	1.98%

PWLB (Annuity)	£4,000,000	2.55%	2058	£3,970,946	2.55%
PWLB (Annuity)	£2,500,000	2.56%	2059	£2,481,883	2.56%
PWLB (Annuity)	£4,410,000	2.56%	2069	£4,388,015	2.56%
PWLB (Annuity)	£9,400,000	2.54%	2059	£9,331,568	2.54%
PWLB (Annuity)	-	-	2069	£4,800,000	1.83%
<b>Total Debt</b>	<b>£61,068,673</b>	<b>2.90%</b>		<b>£65,601,473</b>	<b>2.82%</b>

23. At the 30 September 2019 the Council had debt amounting to £65.6m (PWLB debt).
24. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.
25. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.
26. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
27. The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
  - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
28. The Council's 2019/20 MRP Policy was approved as part of the Treasury Management Strategy Report for 2019/20 by Council in February 2019.
29. The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leased items on the balance sheet, which increase the Council's borrowing need (albeit no additional borrowing is actually required against such items).

<b>Table 2 CFR: General Fund</b>	<b>2018/19 Actual £000's</b>	<b>2019/20 Estimate £000's</b>
Opening balance	39,493	58,094
Add unfinanced capital expenditure	19,396	15,662
Less MRP	(795)	(1,184)
<b>Closing balance</b>	<b>58,094</b>	<b>72,572</b>

30. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

31. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20.

<b>Table 3 Internal Borrowing</b>	<b>2018/19 Actual £000's</b>	<b>2019/20 Estimate As at 30/11/19 £000's</b>
Capital Financing Requirement	58,094	72,572
External Borrowing	61,069	65,601
<b>Net Internal Borrowing</b>	<b>(2,975)</b>	<b>6,971</b>

32. The table above highlights the Council's gross borrowing position against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

## Investments in 2019-20

33. The table below provides a snapshot of the investments and deposits held on 30 September 2019. The level of investments can fluctuate significantly on a day to day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

**Table 4 – Investments and deposits**

Counterparty	Rate/ Return	Start Date	End Date	Principal	Term
Landesbank - Helaba	1.14%	30/01/2019	30/01/2020	<b>5,000,000</b>	Fixed
Australia & NZ BGC Ltd	0.98%	03/06/2019	03/12/2019	<b>5,000,000</b>	Fixed
DBS Bank	0.79%	04/07/2019	04/10/2019	<b>5,000,000</b>	Fixed
Credit Agricole	0.79%	03/09/2019	03/03/2020	<b>5,000,000</b>	Fixed
Goldman Sachs	0.92%	11/09/2019	11/03/2020	<b>5,000,000</b>	Fixed
Barclays Corporate	0.40%			<b>1,999,995</b>	Call
NAT West	0.05%			<b>6,147</b>	Call
			<b>Total</b>	<b>27,006,142</b>	

34. As at 30 September 2019 three longer term loans are outstanding to other organisations.

**Table 5 – Loans to Other Organisations**

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal £	Term
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Fixed
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£200,592	Annuity
The Source	2.43%	17/12/2015	16/12/2024	£18,123	Annuity
			<b>Total</b>	<b>£2,006,950</b>	

35. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235- Maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed – Annuity loan); these correspond to PWLB loans in Table 1 above.

36. The overall investment performance for the first 6 months of 2019/20 provided an average return of 0.91% (2018/19 0.78%).

37. The total interest receivable for the first 6 months is £120,348 (2018/19 £82,944) These figures exclude the interest receivable in respect of the three loans to other organisations and income from the Property Fund investment.

## Loans to Hastings Housing Company Ltd

38. Hastings Housing Company has two loans outstanding with the council, a revenue loan and a capital loan. The rate chargeable on the revenue loan is calculated monthly and stood at 4.84% at the end of September 2019. The Capital loan rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. The value of the revenue loan was £94,000 and for the capital loan £5,492,000 at the end of September. The interest rates are determined in accordance with EU rules. The company expects to be able to repay the revenue loan in full at the year end. Currently

the debt costs incurred by the Council in making advances to the housing company are covered by the interest repayments.

## The Council's Capital Position (Prudential Indicators)

39. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

### Prudential Indicator for Capital Expenditure

40. This table shows the revised estimates for capital expenditure for 2019/20.

<b>Table 6 Capital Expenditure (Net) by Service</b>	<b>2019/20 Original Estimate (net) £'000</b>	<b>2019/20 Revised Estimate (net) £'000</b>
Corporate Resources	5,492	6,986
Operational Services	11,164	8,676
<b>Total Capital Expenditure</b>	<b>16,656</b>	<b>15,662</b>

### Capital Expenditure – Financing

41. The new Capital schemes, approved since the budget, will generally be financed by borrowing, unless Capital receipts from the sale of assets are available.

42. The larger schemes in the capital programme which are expected to require financing in 2019/20 from borrowing are:-

- (1) Commercial property purchases estimated at £6.09m
- (2) Loans to Hastings Housing Company Ltd estimated at £4.3m
- (3) Temporary accommodation estimated at £2.3m
- (4) DSO Vehicles and depot works at £1.08m
- (5) Conversion of 12/13 York buildings at £654,000
- (6) Country Park Visitors Centre estimated at £308,000

## Impact on the prudential indicators

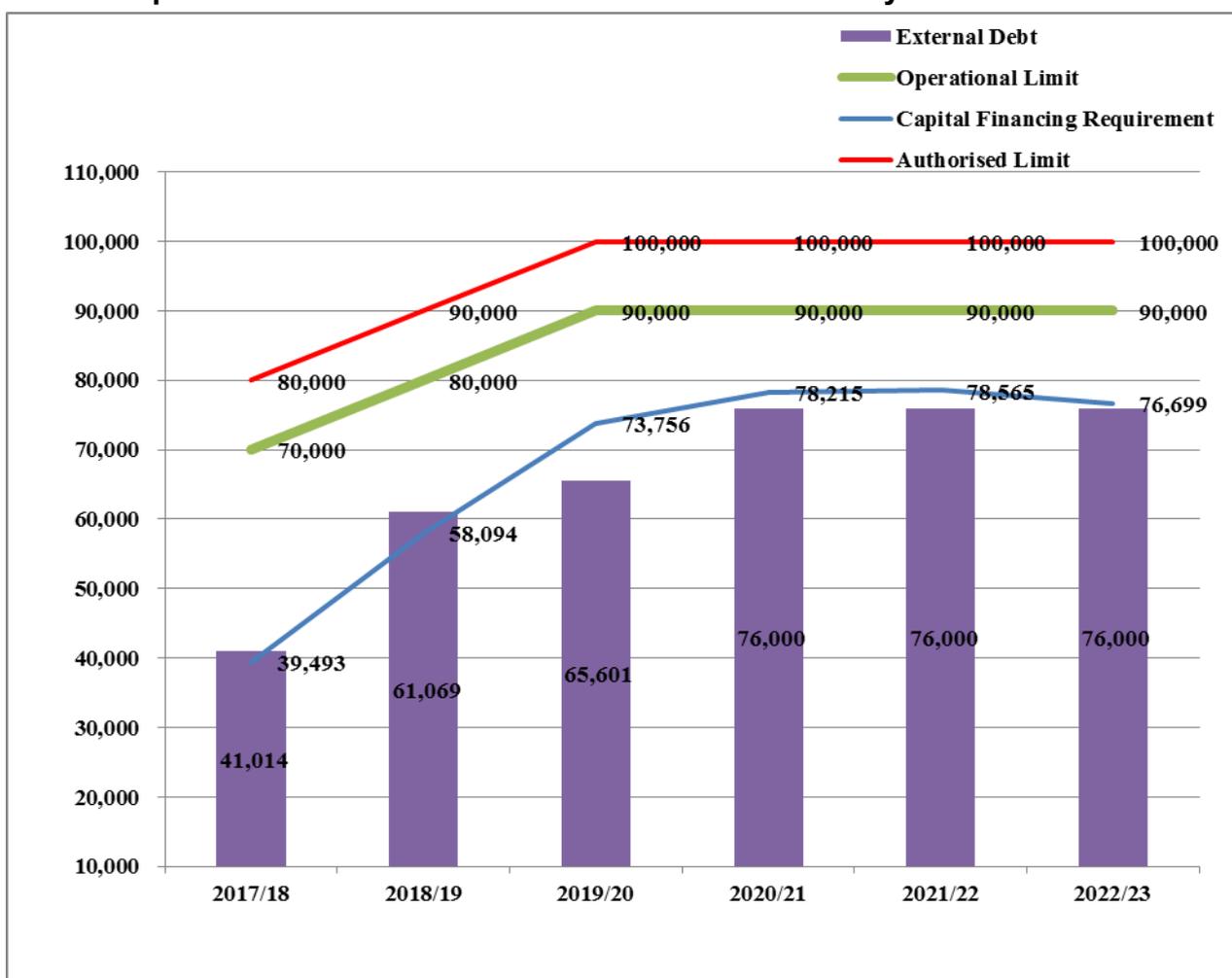
43. The Capital Financing Requirement has increased significantly over the last 18 months. It is expected to reach some £96m by April 2021. The position at 30 November 2019 is shown in Table 3 above, and highlights that there would be an underlying financing requirement of some £6.9m by the year end if no further borrowing is undertaken in 2019/20.

## Compliance with the limits in place for borrowing activity.

44. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years.
45. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.
46. The current operational and authorised boundaries are as follows. They will need to be revised for 2020/21 and beyond given planned expenditure. Revised limits will be considered when determining the Treasury management Strategy for 2020/21 in February 2020 (A full Council decision).

<b>Table 7</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
<b>Authorised Limit</b> for external debt -			
borrowing	£95,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000
TOTAL	£100,000	£100,000	£100,000
<b>Operational Boundary</b> for external debt -			
borrowing	£85,000	£85,000	£85,000
other long term liabilities	£ 5,000	£ 5,000	£ 5,000
TOTAL	£90,000	£90,000	£90,000

**Graph: Estimated CFR/ Debt and Debt boundaries at year end**



## Borrowing Strategy

47. The Council now has some £65.6m of PWLB debt, and could potentially borrow up to a level of £73.7m (estimated CFR at 31 March 2020). This figure does not take account of any new capital spending in future years which could potentially be funded by new borrowing.
48. The interest rate forecasts from the Council's treasury advisers identify that it is unlikely that the base rate will increase until later in 2020. Whilst the borrowing rates are attractive on a historical basis the difference between the return on investment and the cost of borrowing remains – the additional revenue cost falling on the Council taxpayer.
49. New borrowing has been taken over the last 18 months, to not only take advantage of the historically low rates, but to ensure that the Council's own reserves are cash backed should restrictions be placed on the amount and levels of borrowing that authorities can undertake (particularly from the PWLB) and a balanced view will continue to be taken. This strategy was well founded given the 1% increase in borrowing rates from the PWLB in October 2019.

50. The Council's corporate plans require substantial new borrowing by the Council in the future and play a part in the consideration as to when to borrow and the level of internal borrowing. Given the historically low interest rates and the ability of the Council to look at other investment opportunities which are providing higher returns than the cost of borrowing e.g. property funds, there has been a much stronger case for reducing the level of internal funding in order to ensure a lower level of borrowing risk in the future.
51. On 9 October 2019 the PWLB announced it was increasing rates on new loans by 100bps (1%) with immediate effect. At the time this increased the cost of a 40 year annuity loan from 1.88% to 2.88%, an increase of 53% in the rate of interest payable. Despite the increase interest rates still remain at historically low levels. However the council will now consider other sources of borrowing when making financing decisions to ensure loans are obtained at the most advantageous rates possible.

### **Debt Rescheduling**

52. The Council keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. When reviewed on the 27 September 2017 the early repayment cost of the £7.5m (4.8%) PWLB loan, maturing in 2033, would amount to £3,177,343. No debt rescheduling is being contemplated at present as the interest rate differences are similar to that of two years ago.

### **Investment Strategy**

53. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent.
54. The Council has a limit of £5m with any one institution (rated A or above, supported by Government, and given a blue (12 month) rating by Link Asset Services). This generally represents a level of up to 15% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.
55. The Eurozone and Brexit have led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits if necessary to ensure that monies can be placed with appropriate institutions.
56. The net cost to the Council of borrowing, investment interest and fees will be reviewed as part of the budget setting process.

### **Property Fund**

57. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period

of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance is detailed below:

### CCLA – LA's Property Prices and Dividend yields

End of	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Apr-17
Offer Price p	324.35	327.66	327.40	329.35	324.17	324.10	322.40	319.44	314.48	307.19
Net Asset Value p	303.84	306.94	306.70	308.53	303.67	303.61	302.01	299.24	294.60	287.77
Bid Price p	299.13	302.19	301.95	303.75	298.97	298.90	297.33	294.60	290.03	283.31
Dividend* on XD Date p	3.45	3.15	3.31	3.32	3.17	3.28	3.21	3.38	3.34	
Dividend* - Last 12 Months p	13.22	12.94	13.08	12.98	13.04	13.64	13.70	13.71	13.13	13.19
Dividend Yield on NAV %	4.35	4.22	4.26	4.21	4.29	4.49	4.54	4.58	4.46	4.58
Fund Size £m	1,173.1	1,178.2	1,127.1	1,099.0	1,047.8	1,027.7	976.3	930.8	836.2	710.2

58. The dividend yield is around 4.4% on the net asset value, which results in quarterly cash dividends of around £22,000. Full year dividends are estimated at around £86,000.

### Property Fund Capital Value

Units (651,063)	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Apr-17
Mid Market Price (£)	1,978,190	1,998,373	1,996,810	2,008,725	1,977,083	1,976,692	1,966,275	1,948,241	1,918,032	1,873,564
Bid Price (£)	1,947,525	1,967,447	1,965,885	1,977,604	1,946,483	1,946,027	1,935,806	1,918,032	1,888,278	1,844,527

59. The Capital value has increased by some 5.58% between April 2017 and September 2019 and that trend is currently continuing. It is important that this is continued to be viewed as a longer term investment (5 years plus) if the original Capital value is to be recovered.

### Diversified Income Fund

60. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified Income Fund. Anticipated returns were around 3% with the added advantage of much higher liquidity than the property fund.

61. The capital value has already recovered from the initial investment where charges are effectively deducted, and was valued at £2,999,815 at the end of November 2019. Dividend yield is 3.17% for November (3.2% October). It should be remembered that this is a long term investment and prices can go up and down.

### Compliance with Treasury Limits

62. During the financial year to date there have again been a few occasions where it has not been possible to find institutions to take the Council's money given the strict criteria in place. In these circumstances the Council will place money in its existing call accounts and this can thus result in the investments exceeding general limits. Where such an occasion looks likely to arise the approval of Chief Finance officer is required in compliance with the Council's Treasury Management Practices. The Prudential Indicators have been complied with - reproduced in Appendix 1 for reference.

## Financial Implications

63. The Council's 2019/20 budget estimated a 0.75% return on investments. With the Bank Base Rate remaining unchanged since August 2018 interest rates on investments have not changed significantly. The Council's actual average rate of return to 30 September was slightly better than budgeted at 0.91% (excluding Property Fund and other loans made).

## Future Changes

64. The Treasury Management Code of Practice (Cipfa) and the Prudential Code for Capital Finance were revised in late 2017/18, and the requirement for a new strategic planning document introduced – the "Capital Strategy" which seeks to bridge the perceived gaps in understanding between the Capital programme, funding thereof and Treasury Management. This was agreed by full council in February 2019 and will be reviewed and updated annually.

65. The 2020/21 Treasury Management Strategy suite of reports will be considered by the Audit Committee on the 22 January 2020 and thereafter considered by Cabinet and then by full Council on 19 February 2020 in conjunction with the budget papers.

## Risk Management

66. The additional risks that the Council is taking on with commercial property, housing and energy investments will need to be considered in the context of the totality of risk that the Council faces e.g. rates revaluation, robustness of income streams, economic downturns, etc. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.

67. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Link Asset Services) ratings advice.

68. The security of the principal sum remains of paramount importance to the Council.

69. To date the strategy of externalising debt has been successful, particularly in the light of the sudden PWLB rate increase in October 2019. The investments made in the Property Fund (CCLA) and the Diversified Investment Fund (CCLA), totalling £5m are currently showing good returns. The risks currently faced in achieving a sustainable Council budget mean that no further long term investments can be made.

## Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Review and revise Annual Treasury Management Strategy	Setting of 2020/21 Budget	February 2020	Chief Finance Officer
Treasury Management Outturn Report to Cabinet	Close of 2019/20 accounts	July 2020	Chief Finance Officer

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### Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

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### Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

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### Implications

Relevant project tools applied? Yes

Have you checked this report for plain English and readability? Yes. This has been done as far as possible considering the complex financial issues involved. Flesch-Kincaid grade level 34.4.

Climate change implications considered? N/A

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

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

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### Additional Information

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**Officer to Contact**

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Chief Finance Officer  
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## APPENDIX 1 Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2017/18*	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
<b>Authorised Limit for external debt</b>					
Borrowing	£75,000	£85,000	£95,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
<b>TOTAL</b>	£80,000	£90,000	£100,000	£100,000	£100,000
<b>Operational Boundary for external debt -</b>					
borrowing	£65,000	£75,000	£85,000	£85,000	£85,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
<b>TOTAL</b>	£70,000	£80,000	£90,000	£90,000	£90,000

2017/18\* - proposed revision to authorised boundary from £70m to £80m. Operational boundary unaltered.

<b>Interest Rate Exposures</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on <b>net</b> debt	100%	100%	100%
Limits on variable interest rates based on <b>net</b> debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%
<b>Maturity Structure of fixed interest rate borrowing 2018/19</b>			
		<b>lower</b>	<b>Upper</b>
Under 12 Months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%
<b>Maturity Structure of variable interest rate borrowing 2018/19</b>			
		<b>lower</b>	<b>Upper</b>
Under 12 Months		0%	30%
12 months to 2 years		0%	30%
2 years to 5 years		0%	30%
5 years to 10 years		0%	30%
10 years to 20 years		0%	10%
20 years to 30 years		0%	10%
30 years to 40 years		0%	10%
40 years to 50 years		0%	10%

## Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

<b>Prudential Indicator: Financing Cost to Net Revenue Stream</b>	<b>2017/18 Actual</b>	<b>2018/19 Rev.Est</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
<b>Financing Costs</b>	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	925	1,366	1,983	2,296	2,394
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-19		0	0	0
4. Interest and Investment Income	-305	-366	-553	-834	-1,062
5. Amounts payable or receiveable in respect of financial derivatives	-	-	-	-	-
6. MRP, VRP	717	795	1,184	1,628	1,775
6. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
<b>Total</b>	<b>1,318</b>	<b>1,795</b>	<b>2,614</b>	<b>3,090</b>	<b>3,107</b>
<b>Net Revenue Stream</b>					
Amount to be met from government grants and local taxpayers	13,373	13,034	13,034	13,389	13,673
<b>Ratio</b>					
<b>Financing Cost to Net Revenue Stream</b>	<b>10%</b>	<b>14%</b>	<b>20%</b>	<b>23%</b>	<b>23%</b>

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council has an income generation strategy that has identified an additional £50m of Capital expenditure over the period 2017/18 to 2020/21. The above ratio does not take into account the income that will be generated from the energy initiatives and commercial property acquisitions.

## Other Prudential Indicators

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy. Additional prudential indicators will be developed as the forward capital plans of the authority are developed.

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# Agenda Item 6



**Report to:** Cabinet

**Date of Meeting:** 6<sup>th</sup> January 2020

**Report Title:** Town Deal

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

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## Purpose of Report

Hastings is one of the only 101 towns eligible to bid for up to £25 million from the Town Fund which was launched by the government in November 2019. This report sets out the purpose of the fund, and both the partnership and work arrangements which need to be put in place to access the Town Fund.

This is a significant opportunity to help kick-start the next phase of Hastings' regeneration using the drawdown of the Town Fund and leveraging of other public and private investment to maximise its impact.

The report seeks both support for the 'direction of travel' and authority to spend up to £173,029 'capacity' funding in delivering a successful town bid.

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## Recommendation(s)

1. To delegate authority to the Director of Operational Services or his nominee in consultation with the Lead Member for Regeneration and Culture to:
  - Establish a Town Board and agree its membership with the relevant partners including with local businesses and the community.
  - To procure services and expertise to develop a Town Investment Plan and agree the Town Deal using the £173,029 awarded by the government to support this initiative.
  - To establish a project team to oversee the development of the plans and its implementation in conjunction with the County Council and other partners as appropriate.

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## Reasons for Recommendations

1. The government recently launched the Towns Fund with the objective of driving the economic regeneration of towns such as Hastings and delivering long term economic and productivity growth. The Towns Fund will provide up to £25 million public investment by central government through the agreement of a Town Deal.
2. There is also the possibility of additional funding which may come from other sources or branches of government and private investment, to support the implementation of a Town Deal. It offers an opportunity for Hastings to address many of the remaining social and economic challenges in the town as a whole.

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## Introduction

1. The government announced the launch of the Town Fund on 6<sup>th</sup> September 2019. It published the prospectus for the fund on 1<sup>st</sup> November 2019, inviting 101 towns to develop proposals for a Town Deal, as part of the £3.6 billion Fund. The Fund will provide towns with the tools to design and deliver a growth strategy for their area.
2. Hastings is one of the eligible towns and the Fund will provide up to £25 million public investment through the agreement of a Town Deal. It is anticipated additional public funding opportunities will be aligned to the objectives of the Town Deal, for example, a Town Deal could be part funded by the Town Fund, National Lottery Funds, Arts Council England, Shared Prosperity Fund, other grants and private investment sources etc.
3. The final Town Deal agreed with the government will depend on comprehensive regeneration plan for Hastings for which the Town Fund provides an element of public investment.
4. It is expected that the agreed Town Deal will be an important strategic and a 'call for action' document for the council and partners for the next five to ten years. It will represent our vision, ambition, corporate priority and a significant amount of our resource commitment over the short and medium term. It will also join up many of the 'asks' in our Local Plan, Corporate Plan and our various strategies including the Anti-Poverty Strategy, Housing Strategy and the Climate Change Strategy. It will be our 'go to' document mapping out our ambitions for the future in concrete programmes of activity. It will also be our prospectus to funders and investors showing Hastings is open for business.
5. It will deliver jobs, homes, skills and action to reduce our carbon emissions. It must include activities which ensure residents in the outer areas of the town directly benefit from the proposed investment.
6. Seven towns in the South East LEP area can bid for the Towns Fund; being Colchester, Grays, Harlow, Hastings, Margate, Newhaven and Tilbury.
7. The attached link provides further information to the Town Fund prospectus:  
<https://www.gov.uk/government/publications/towns-fund-prospectus>
8. The government has also indicated that further guidance will be published on the fund sometime in early January 2020.

## Objective of Town Fund

9. The objective of the Fund is to drive the economic regeneration of towns to deliver long term economic and productivity growth through:
  - i. **Urban regeneration, planning and land use:** ensuring towns are thriving places for people to live and work, including by increasing density in town centres; strengthening local economic assets including local cultural assets; site

acquisition, remediation, preparation, regeneration; and making full use of planning tools to bring strategic direction and change

- II. **Skills and enterprise infrastructure:** driving private sector investment and ensuring towns have the space to support skills and small business development
- III. **Connectivity:** developing local transport schemes that complement regional and national networks, as well as supporting the delivery of improved digital connectivity.

## Preparing for a Town Deal

10. This first part of the Town Deal has a 2 stage process:

- **Stage 1:** Convene a board; work with the community to develop a well-evidenced Town Investment Plan. This will set out a clear understanding of the area, focusing on its assets, opportunities and challenges.
- **Stage 2:** Use Town Investment Plan to develop business case(s) to apply for funding for interventions (further guidance to be issued in early 2020).

11. HBC has been provided with £173,029 'capacity funding' to prepare for the town deal and to deliver the following:

- A. Convene Town Deal Board
- B. Run business and wider community engagement events
- C. Develop Town Investment Plans
- D. Commission technical expertise for business case development.

12. It is proposed to procure the support of experienced consultant and technical expertise to develop the programme. The 'capacity funding' will be used to both employ a company with the range of experience to deliver the above and to cover additional HBC internal resourcing requirement. The final proposals will face scrutiny by the Treasury and need to match the standard of evidence in its ['Green Book'](#).

## Timeline (current pre-election government)

13. The government's Town Deal prospectus sets out the initial timelines for agreeing Town Deals:

- Capacity funding distributed to Lead Councils in November 2019
- Readiness checklist completed by 19<sup>th</sup> December 2019
- All towns to have established and held the first Town Deal Board meeting by end of January 2020
- All towns to have completed Town Investment Plans by end of summer 2020.

14. The timelines are subject to further guidance being published in January 2020.

## **Town Deal Board**

15. The government's prospectus strongly suggests that a Town Deal Board be established using key existing partnerships that may already be present in the town.
16. The Town Deal Board will be the vehicle through which the vision and strategy for the town is defined. It will produce a Town Investment Plan and inform the Town Deal, including the amount of investment secured through the Towns Fund.
17. Its key tasks will be as follows:
  - A. Develop and agree an evidenced based Town Investment Plan
  - B. Develop a clear programme of interventions
  - C. Coordinate resources and influence stakeholders.
18. The Town Deal Board will serve as an advisory function to Hastings Borough Council as the lead authority and programme management for the Town Fund and Deal. However, it will be a body of real significance locally, regionally and with government and critical to the development of a programme with wider buy in.
19. It is suggested that the Board be established by utilising the capacity and roles of existing partnership structures such as the Hastings Local Strategic Partnership, Hastings and Rother Task Force, Hastings Opportunity Area, and other related partnerships. It is critical not to produce another initiative focused board, but work with partners in a strategic and resource efficient way. Given the timescales set by the government, the work to establish the board has been commenced.

## **Lead Authorities Roles**

20. HBC is expected to be the lead authority and take the management role for the Town Fund. This includes taking responsibility for procuring, managing and maintaining all the support services until the Investment Plan is agreed and business plan produced. Responsibility for programme delivery will be identified in the final Town Deal agreement and its implementation plans. More guidance is expected from the government regarding delivery structures.
21. A deal developed in co-operation with East Sussex County Council is essential as the tier of Local Government leading on transport, education, digital skills, and public health. Early discussion at officer level has been very positive.
22. Close co-operation will other partners including the Local Enterprise Partnerships will be required to ensure the Town Fund augments draws down other funding, which places a sharp focus on joined up working at all levels in order to maximise the value and impact of the programme to Hastings.

## **Timetable of Next Steps**

23. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Preparing the 'readiness check list'	Submission of the checklist to central government	19 <sup>th</sup> December 2019	Victoria Conheady – Assistant Director
Town Deal Board	Consulting on the board with partners  Agreeing the Terms of Reference and establishing the Board	December 2019 / January 2020  31 <sup>st</sup> January 2020	Victoria Conheady – Assistant Director
Town Investment Plan	Publication of the Investment Plan and the draft proposal for the Town Deal	Summer 2020	Town Board  Supported by - Pranesh Datta, Economic Development Manager
Town Deal	Negotiation and agreement of the Town Deal proposal with the government	2020/2021	Simon Hubbard, Director of Operational Services

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## Wards Affected

All

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## Implications

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

### Equalities and Community Cohesiveness

The Town Deal should directly address issues of social mobility, skills and access to local jobs in maximising its impact. If other funding streams are also brought into play, it will also address wider health and wellbeing issues.

## **Risk Management**

As part of the project, management process a governance structure including a risk log and assessment will be developed and maintained from the outset.

The initial risks relate to the establishment of a cohesive board and procuring the level of special expertise and leadership to support the development of the Investment Plan and the Town Deal. The government has not yet fully published all its guidance and until this is available, a full assessment of any potential risks is not possible.

## **Economic/Financial Implications**

This fund has the potential to lever investment of up to £25m of government funds as well as further public and private investment. The development of the bid should carry no financial implications and the deal itself will need to address the cost of the council resourcing this programme.

## **Human Rights Act**

n/a

## **Organisational Consequences**

Officer resources will be required to deliver and manage the Town Deal work, as detailed above. Arrangements will be made for both the development phase and then for the longer term programme. The council will seek to fund additional cost pressures from the fund itself where this is legitimate.

## **Local People's Views**

The guidance clearly identifies the need for community engagement, as well as involvement of current structures. The Town Board will need to identify the consultation and communication strategies to ensure public awareness and engagement is maximised.

In the meantime, officers have produced a communications plan from mid-December until end of January, which will be updated and continue to be a living document as further guidance is released by government.

The communication plan currently includes:

- Production of a Town Deal webpage and Frequently Asked Questions which will sit in the Regeneration area of the website, along with a homepage banner. This will go live on 20 December in line with the publication of the Cabinet papers.
- Issuing of a press release, in line with publication of cabinet papers, informing the public about the Town Deal fund and the Council's intention (subject to Cabinet approval) to develop a town deal bid and set up a board as per the prospectus guidance
- Councillors briefing informing them about the fund and the key messages
- Setting up and holding a Town Deal board meeting by the end of January 2020, publish board structure and governance documents on the council's website.

## Anti-Poverty

The Board will need to consider how the needs of the most excluded can be built into the thinking of the draft Deal.

## Climate Change

The Town Investment plan will be informed by our developing climate change strategy. This includes consideration of potential investment options in renewables, development and encouragement of low carbon buildings and transport infrastructure assets.

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## Additional Information

The attached link provides further information to the Town Fund prospectus:

<https://www.gov.uk/government/publications/towns-fund-prospectus>

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## Officer to Contact

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# Agenda Item 7

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of the Local Government Act 1972.

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