

Corporate Policy & Resources Committee

9th December 2024



Title	<i>Eclipse Leisure Centre Financing</i>
Purpose of the report	To note
Report Author	<i>Prithiva Janaka</i>
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	n/a
Corporate Priority	Community Resilience Services
Recommendations	Note the revenue impacts of the Eclipse Leisure Centre for the Outline Budget period
Reason for Recommendation	The Eclipse Leisure Centre has been a major multi-year capital project. The financing of its costs is of major significance to the resilience of the Council's financial situation, and is laid out for members in this report

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> The Eclipse Leisure Centre (main phase 1) opened in October 2024 As well as being a beautiful design with all the latest facilities, the new Leisure Centre is also extremely energy efficient and anticipated to make savings of 60% to 70%. The Leisure Centre is the most significant item in the current Capital Programme to be financed 	<ul style="list-style-type: none"> The total anticipated cost for phase 1 is £46.507m (the final account is yet to be agreed, so this may change) The total capital costs expected for the demolition of the former Spelthorne Leisure Centre is £2.23m Investment into Sunbury Leisure Centre to upgrade Mechanical and Electrical plant (allowing for the dilapidations payment) is £0.739m Internal project management for the whole Leisure Centre programme over a number of projects totals £0.471m Financing costs are anticipated to be £1.062m

	<ul style="list-style-type: none"> The revenue costs associated with the project and the associated income will have a significant impact on the Council's future finances
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> This report shows a detailed breakdown of expected revenue income, costs and impacts 	<ul style="list-style-type: none"> The income and costs are factored into the 2025/26 Outline budget and the Outline Budget years

- 1.1 In October 2020 the Council, like many Councils, declared a Climate Change Emergency. In this context Council agreed to invest in a Passivhaus design standard when constructing its new Leisure Centre. The Passivhaus design standard will deliver energy savings and reduced carbon emissions in the region of 60% to 70% compared to a normal leisure centre of equivalent size.
- 1.2 This report seeks to summarise the capital costs and financing of the project, and the ensuing revenue income and expenditure impacts expected from its operation.
- 1.3 The total capital costs for phase 1 are expected to be in the region of £46.507m. The final figure cannot be confirmed until the agreement of final construction account with the main contractor is settled. The total capital costs expected for the demolition of the old leisure centre, planned completion June 2025, are expected to be £2,230,000, and costs the Council will incur for the replacement of Mechanical and Electrical plant at Sunbury Leisure centre are forecast to be £739,000. When internal project management fees and financing are included, this brings the estimated total costs of the scheme to £51,009,692.
- 1.4 The project was financed through prudential borrowing. For the purposes of financing the project, PWLB loans were obtained for £9,300,000 at fixed rate of 3.3% in September 2022, the remainder of the cost of £41,709,692, initially financed from cashflow. Following on from the decision by full Council in October 2024 to draw down its pooled funds, moving forwards the remainder of the costs will be internal borrowing, upon which there is approximately 4% interest foregone per annum from not having the pooled investments in place to earn interest.
- 1.5 Minimum Revenue Provision (MRP) will follow the annuity method, in line with the Capital Strategy. The draft MRP schedule can we found in **Appendix A**. This may change subject to project costs and further advice from our Treasury Management advisors.

2. Key issues

- 2.1 In October 2024 the Council opened its new groundbreaking Eclipse Leisure Centre. Whilst this will generate significantly higher management fee contribution from the operator than the old leisure

centre, and provide an enhanced range of facilities for residents, the capital financing costs of the centre are not fully covered by this additional income, so in the first two years there is a net revenue Budget pressure as set out in **Table 1** below:

Table 1 - Leisure Centre net Revenue Budget pressure

	2025-26	2026-27	2027-28	2028-29
	£	£	£	£
Management fee income	(405,618)	(936,590)	(1,201,062)	(1,276,378)
Capital financing (MRP)	395,502	426,634	440,713	455,256
Capital financing (PWLB interest paid)	297,244	292,399	287,391	282,217
Estimated Insurance costs*	345,000	345,000	345,000	345,000
Estimated net Revenue Cost or (Surplus) from Eclipse	632,128	127,443	(127,958)	(193,905)
Income forgone (at long term average of 4%) on pooled investments and other internal borrowing drawn down**	1,600,000	1,600,000	1,600,000	1,600,000
Net underlying impact	2,232,128	1,727,443	1,472,042	1,406,095

*Note the figures for insurance for the Eclipse Leisure Centre are worst case figures and reflect the initial figures provided by our current insurers. London Borough of Sutton who manage our insurances have just undertaken a tendering exercise for insurers and currently are confident that this figure will significantly reduce which will improve the above net position. However, the evaluation exercise will not complete until mid-December, so on grounds of prudence, we have assumed the worst-case figures. The insurance figures are initially very high because of the insurer's caution with respect to the high proportion of timber in the Eclipse Leisure Centre building structure.

** Note this reflects the draw down of pooled investment funds. The Council potentially may be able to invest receipts from disposals of assets to partially offset some of this impact.

2.2 The above impacts are reflected in the Outline Budget figures, in the report elsewhere on this agenda.

2.3 In March 2022 Development Sub-Committee, received a projection based on expectations at the time regarding interest rates. This indicated that at a total cost of approximately £48m capital cost the Revenue Budget shortfall (amount by which cost of financing exceeded income generated) at £1.5m. In comparison over the four financial years set out in the analysis the underlying average shortfall will be £1.709m, albeit a larger shortfall in 2025-26, fall back to just over £1.7m in 2026-27 and then reducing in subsequent two financial years.

3. Options analysis and proposal

3.1 This report is for information only.

4. Financial management comments

4.1 The Eclipse Leisure Centre will present a net revenue cost, in terms of the difference between the total income share from the operator coming to the Council and the loan financing costs associated with the scheme, to the Council of approximately £632k in 2025/26 and £127k in 2026/27 but will become a net revenue contributor from 2027/26 as management fee income gradually increases. The underlying impact, set out in the bottom row of the table, will remain negative in view of the high level of internal borrowing, dedicated to the project and the consequent loss of investment interest this entails.

5. Risk management comments

5.1 Phase 2 of the scheme is not yet complete so there is a risk that final completed capital cost may move slightly. The costs are being regularly monitored and reported.

6. Procurement comments

6. The construction of the Eclipse Leisure Centre went through a thorough procurement process.

7. Legal comments

7.1 Section 1 of the Local Government Act 2003 permits a local authority to borrow for any purpose relevant to its functions or for "the prudent management of its financial affairs".

7.2 Section 3(1) and (8) of the Local Government Act 2003 oblige a local authority to determine and keep under review how much money it can afford to borrow.

7.3 It is essential therefore that the financing of the Eclipse Leisure Centre is closely monitored.

8. Other considerations

8.1 Detail any other considerations to be taken into account.

9. Equality and Diversity

9.1 The Eclipse Leisure Centre has been designed to be accessible and inclusive.

10. Sustainability/Climate Change Implications

10.1 As stated in the report the Leisure Centre has met Passivhaus energy standards which means it is approximately 60 to 70% more energy efficient.

11. Timetable for implementation

Not applicable

12. Contact

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Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: *(These are unpublished papers upon which you have relied in preparing this report). If none state, There are none.*

Appendices:

Appendix A – Minimum Revenue Provision for Eclipse Leisure Centre