

**BABERGH DISTRICT COUNCIL**

**FROM: Procurement Task Group**

**REPORT NUMBER    **E280****

**TO:     Strategy Committee**

**DATE OF MEETING   9 February 2006**

**LEISURE TRUST FUNDING**

1.     **SUMMARY**

1.1     The report explains funding and budget issues in relation to the Leisure Trust that impact on the Council's capital grant towards the initial set-up costs and the revenue grant from Babergh to the Trust in 2006/07 and subsequent years

2.     **RECOMMENDATIONS**

2.1     The Committee is asked to approve as part of the budget recommendations:-

(a)     An increase in capital grant to the Leisure Trust of £20,000 in 2005/06 to be funded from savings in Private Sector Renewal Grants.

(b)     An increase of £24,000 in the revenue grant from Babergh to the Leisure Trust in 2006/07 to be funded by salary savings in relation to the Leisure Services Manager post and the slightly higher level of final Government Grant that has just been announced.

2.2     That a lower actual level of grant be achieved if possible by the Head of Leisure and Community Services in consultation with the Head of Finance through negotiation and agreement with the Trust, on the understanding that should there be an unavoidable increase in TUPE and energy costs over and above the £24,000, this would be met by officers identifying savings or additional income on other budgets.

2.3     That these negotiations be based on the protocol outlined in section 4.13 of the report.

Strategy Committee are able to resolve the increase in capital grant of £20,000 but will have to recommend the additional revenue grant of £24,000 to the Council as part of the budget setting process.

3.     **FINANCIAL IMPLICATIONS**

3.1     The financial and other benefits of the Trust were fully explained in the report to Strategy Committee on the 10 November 2005 (Confidential paper E191 refers). These remain valid, as the additional costs outlined in this report would apply to any of the options for running the leisure facilities.

3.2     The capital programme increase of £20,000, from the current £150,000 in the 2005/06 capital programme to £170,000, can be funded by savings on Private Sector Renewal Grants.

- 3.3 The increase in the revenue grant of £24,000 can be funded from savings on the vacant Leisure Services Manager salary of £23,000 and the slightly higher level of Government grant announced in the final settlement. The total revenue grant will increase from £172,770 to £196,770.
- 3.4 This increase and any further variation will also impact on years 2 to 5 of the agreed funding arrangement, but the grant levels for those years are lower than in 2006/07.

#### 4. **KEY INFORMATION**

##### **Initial set-up costs**

- 4.1 There is provision in this year's capital programme for a grant to the Trust of £150,000, which was approved by Members in November 2005 (Paper E191) in relation to the initial cost of re-equipping the two facilities.
- 4.2 More detailed work has resulted in the costs of the IT hardware and software requirements increasing from the initial estimates. Officers have rigorously examined these costs and are satisfied that this is the minimum level of investment required and the Task Group accepts the need to increase the capital grant by £20,000.
- 4.3 Officers agreed, however, to investigate further the possibility of buying in the main software requirements on a bureau basis to establish if this might be a more cost-effective option. It is accepted, however, that increased budget provision should be made pending the outcome of that evaluation.
- 4.4 The additional cost can be met by savings in other areas of the capital programme, specifically on Private Sector Renewal Grants. This will have no implications as the level of applications is running at a lower level than the budget.

##### **Annual revenue grant**

- 4.5 There are 2 key issues on this, which are:
- Salaries and wage costs, based on the TUPE information that we have now received from Leisure Connection
  - Energy costs
- 4.6 These were always accepted as potential variables in agreeing the annual funding levels from Babergh that would be needed, although best efforts were made to allow for the likely costs when the business plan was drawn up and agreed by Members in November 2005.
- 4.7 It is now clear that there will definitely be an increased cost in relation to the TUPE information and a possible increase on energy costs.
- 4.8 The latest assessment on the two key issues is as follows:
- Salary and wage/TUPE costs

Based on the latest information provided by Leisure Connection, the budget for the Trust and the grant required from Babergh needs to increase by £14,000. Strategy Committee are advised that this is a very small variation in the total paybill for the Trust, details of which are included in Appendix 1 of paper E191.

However, as is the case in all TUPE transfers, the actual position will not be known until staff transfer from April 2006. There is a risk, therefore, that this could be an understatement of the actual position.

If this were the situation, the Trust could legitimately look to Babergh for a further increase in revenue grant.

- Energy

An allowance was made for a 20% increase in costs in the original budget and business plan approved by Members and indications from Leisure Connection's latest budget forecasts suggested this was a sound basis. However, the energy market is extremely volatile and it is possible that a further increase may be necessary. If a 10% increase proved to be necessary this would add a further £14,000 to the grant required.

Officers have been examining a range of options to provide as much certainty as possible for the Trust's budget and costs for next year with the aim of avoiding or minimising any increase. This is dependent on obtaining the relevant information from Leisure Connection. It is hoped that the position will be fully resolved by the time Strategy Committee meets on the 9 February but that may not be possible.

4.8 It is recognised that there is a need to set a Council Tax increase at the rate of inflation for next year and that this increase needs to be funded by compensating savings.

4.9 Officers have, therefore, carefully reviewed other areas of the Trust's business plan and budget for 2006/07 and have identified a modest saving of £4,000, which slightly reduces the overall potential increase. Depending on the outcome of ongoing discussions on energy costs and what further information arises on the TUPE position, an overall increase in Babergh's grant for 2006/07 of £24,000 could be required.

4.10 In terms of funding this, the following savings and additional income have been identified:

	£
Vacant Leisure Services Manager post – 6 months	23,000
Part of increase in final level of Government Grant	<u>1,000</u>
	<u>24,000</u>

Clearly, keeping the Leisure Services Manager post vacant will impact on the ability to deliver on all of the planned leisure activities during the period, including on tourism as the Tourism manager is covering a wider range of areas. Officers will focus on key priorities.

4.11 The proposed savings will result in there being no impact on Babergh's overall draft budget for 2006/07 and, although there would be an ongoing effect on the grant to the Trust in subsequent years, the grant in those later years is lower than in 2006/07. This is demonstrated below and compares the position in November 2005 with the current position:

	November 2005 £	Current position £
2006/07	172,770	196,770
2007/08	144,665	168,500
2008/09	159,067	181,300
2009/10	122,212	140,800
20010/11	122,212	140,800

(NB: The amounts for 2008/09 onwards are slightly less than the £24,000 increase due to an adjustment to the estimated level of recoverable VAT in future years)

4.12 The Task Group have challenged officers on the proposed increase in 2006/07 and have asked officers to ensure that the Trust's business plan and budget are fully examined to see what scope there is to minimise future grant requirements from Babergh. Clearly, the council should be looking to the Trust to explore all possible areas of additional income as part of this.

4.13 A suggested protocol for agreeing the actual level of grant and any further variation for 2006/07 is set out below:

- Trust to manage paybill in relation to TUPE position so as to achieve the budget provision in their business plan, with the aim of a maximum increase of £14,000 on previous forecasts being achieved if possible
- Aim to achieve a fixed cost for energy in 2006/07 of no more than that indicated in this report
- Regard be had to the projected surplus of £50,000 for the Trust in 2006/07 and it be accepted that a lower surplus may be necessary in year 1 depending on the above
- The overall aim is to limit the increase in revenue grant from Babergh in 2006/07 to a maximum of £24,000 and to achieve a lower increase if that is possible

4.12 In conclusion, a lot of work has been undertaken to minimise any additional costs, including the use of Babergh staff on secondments and in supporting the setting up of the Trust. However, setting up new arrangements and, specifically, the transfer of staff under TUPE, will always result in cost uncertainties. The Task Group accepts, with a degree of reluctance, that the budget for the 2006/07 revenue grant to the Trust should be increased as indicated in the report.

## 5. APPENDICES

None

6. **BACKGROUND PAPERS REFERRED TO:**

None

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6 February 2006