

## London Borough of Enfield



---

<b>Report Title</b>	Southbury Leisure Centre
<b>Report to</b>	Cllr Nesil Caliskan – Leader of the Council
<b>Date of Meeting</b>	26 <sup>th</sup> June 2024
<b>Cabinet Member</b>	Cllr Anyanwu – Cabinet Member for Environment, Culture and Public Spaces
<b>Executive Director / Director</b>	Cheryl Headon – Director of Leisure, Parks & Culture (Interim)
<b>Report Author</b>	Matthew Watts – Head of Sport & Leisure
<b>Ward(s) affected</b>	Southbury
<b>Key Decision Number</b>	KD 5774
<b>Classification</b>	Part 1 Public
<b>Reason for exemption</b>	Not Applicable

### Purpose of Report

1. To gain approval to undertake a programme of works to replace and refurbish parts of Southbury Leisure Centre and its mechanical systems that will be funded via a combination of capital borrowing and Section 106.

## Recommendations

- I. Under the delegation in the 10-year Capital Programme 2024/25 to 2033/34 report (KD5502), the Leader of the Council is asked to approve the transfer of £1.2m from the Pipeline Programme to the approved capital programme, for urgent capital replacement and refurbishment works, required at Southbury Leisure Centre as described in the business case (appendix 1).
- II. To agree an additional capital budget of £0.5m, subject to the Executive Director of Resources identifying a reallocation of borrowing from other projects, in accordance with the delegation agreed by February Council (KD5502), to be spent on urgent replacement and refurbishment works.
- III. Approval to spend the remaining £0.7m (taking total project budget to £2.4m), subject to approval at September Council (£0.2m has been identified to be funded from S106).

## Background and Options

2. On 4<sup>th</sup> December 2023, Greenwich Leisure Ltd. (trading as Better) ('GLL') took over management responsibility of the Council's leisure portfolio under a contract dated 1 December 2023 (Leisure Contract). Since the transfer from Fusion Lifestyle, GLL has been assessing and addressing a range of maintenance issues affecting the centres.
3. At Southbury Leisure Centre, the assessments have identified a range of statutory compliance faults, a badly leaking roof, an air handling system that no longer functions, and faulty pool plant that had led to various pool closures in 2023. Whilst the statutory compliance works have now been completed, the roof, air handling system and pool plant urgently need replacing to allow continued operation at the facility.
4. In addition to these key mechanical system failures, the gym is tired with regular machine breakdowns, and the changing village is old and difficult to maintain a standard of cleanliness that is expected by our customers. The impact of these issues has been a slower than anticipated recovery from the covid-19 pandemic and the centre moving from a place of generating surplus income to now making a loss.
5. Southbury is a key leisure asset for the borough given the range of different sports played at the facility, its status as the borough's busiest centre, and utilisation for regional competitions such as the swimming galas.
6. A range of options have been discussed with GLL regarding the replacement of the roof and mechanical systems and moving the facility back into a profitable position through the refurbishment of the gym and changing village. The four options considered were:
  1. Do nothing – undertake no works and continue with the facility in its current condition.

2. Do minimum – replace roof, replace air handling unit, and replace the swimming pool plant, but do not fund the gym or changing village refurbishments.
  3. Full project – replace roof, replace air handling unit, replace the swimming pool plant, refurbish gym and refurbish changing village.
  4. Close centre – Don't undertake the proposed investment works, close Southbury Leisure Centre and dispose of the asset for development.
7. The cost and income potential for each of these options has been assessed by the Council's Finance Team, with each option described in more detail in the business case with the rationale for investment. The full business case can be viewed in Appendix 1.
8. Since the assessment were first undertaken, a follow-up inspection of the roof has identified further deterioration of the roof and increased water ingress. The increased water ingress has resulted in the insulation perishing, and the trapped water will accelerate the deterioration of the building structure.
9. Given this feedback, urgent approval is required to undertake the works and facilitate their delivery via the proposed funding method. If the works are not undertaken, then there is a significant risk that the centre may need to close this winter.

### **Preferred Option and Reasons For Preferred Option**

10. The recommendation is to deliver the full scope of works set out in option 3, and to fund this through a combination of capital borrowing and s106 that has been identified for the project. Option 3 is preferred because of the following rationale:
- The capital works are essential; if not commenced immediately the roof will continue to deteriorate and further water ingress could lead to closure of the centre.
  - The non-functioning air handling unit also means that the centre could be forced to close this winter due to temperatures that fail to meet statutory levels.
  - The payback term for this investment would be 4 years and 6 months, which is the quickest of any of the options.
  - The investment will contribute £97k to revenue in 2025-2026 and £268k in 2026-2027.
  - Refurbishment of the gym and changing village will deliver the greatest commercial return for the Council, which will be greater each year than the other options.
11. Option 1 has been discounted because it does not address the urgent maintenance needs of the facility. It will also result in the facility becoming financially unsustainable due to continued loss of membership and increased facility costs. As outlined above, in a worst-case scenario, the unresolved issues could result in closure.

12. Option 2 has been discounted. Whilst addressing the main maintenance issues and facilitating continued operations at the centre, this option would not deliver the wider commercial benefits that the full scope of works would deliver. The revenue benefit will be less than option 3, and there would be no improvement to the customer facing services.
13. Option 4 has been discounted because it represents the worst option reputationally for the Council given the negative publicity that this option would incur should the asset be disposed. This option would also have a significant impact on resident's health given the range of services provided at Southbury Leisure Centre and the lack of alternative provision within the vicinity e.g. soft play, hockey, the leisure centre's sports hall, the teaching pool etc.
14. Whilst option 4 would offer the Council an immediate opportunity to receive a capital receipt for disposal of the asset (which would remain in the future for all the other options), this option would not allow the Council to benefit from the projected income growth that the Council would receive should the preferred option be chosen.

### **Relevance to Council Plans and Strategies**

15. The recommendations proposed within this report will support the Council Plan priority of Strong, Healthy and Safe Communities, by ensuring the leisure centre can remain open and delivers a sustainable commercial model. The proposals will support its delivery specifically by *improving our leisure and sports opportunities to enable more active lifestyles*.

### **Financial Implications**

#### Summary

16. Four options were considered as part of the review process and Option 3 is deemed to be the most beneficial for the Council.
17. This report is seeking approval for a capital investment of £2.4m as detailed in the recommendations, to avoid the Revenue impact of doing nothing which leaves the leisure centre in a state of disrepair.
18. Option 3 provides a positive NPV (£6.1m) and IRR (28%).
19. An assumption of £0.2m S106 / SCIL grant funding is implicit in the financials.
20. A summary table is included in Appendix 2 covering other options considered, the Key Financials and Assumptions.

#### Revenue (Borrowing) budget impact

21. Option 3 (along with conservative growth estimate sensitivity) is an incremental improvement from doing nothing.

22. The Do Nothing Option (1) would put LBE at risk of taking on financial losses due to the reduction in revenue from a lack of investment.
23. Annual debt financial costs are £285k. This assumes £0.2m S106 / SCIL grant funding. The debt financing costs will be incorporated in the MTFP, following Council approval.

#### Capital budget impact

24. The expected spend for Option 3 is to be funded from borrowing (£2.2m) and £0.2m S106 / SCIL grants.
25. £1.2m capital budget is included in the pipeline, this would need to be moved to the approved programme under delegated authority. The additional amount required in the pipeline programme will be approved by Council in September 2024.

#### Taxation

26. The Council has entered into an Agency Agreement with GLL, which means that GLL would undertake the works as an agent of the Council. Due to a recent change in the taxation laws associated with the treatment of VAT for leisure operations, GLL can undertake these works in tax efficient way.

#### Risks

27. Capital budget is dependent on Procurement of contract and equipment.
28. All spend and work is estimated to be completed by Dec-2024. Subsequent benefits from Option 3 are expected from Jan-2025.
29. GLL assumptions have been used to anticipate income growth, the sensitivity analysis captures a more conservative growth assumption.

#### **Legal Implications**

30. The Council has the power under s.1(1) Localism Act (2011) to do anything individuals generally may do provided it is not prohibited by legislation and subject to Public Law principles. Under s.111 Local Government Act (1972) local authorities may do anything, including incurring expenditure or borrowing which is calculated to facilitate or is conducive or incidental to the discharge of their functions. Accordingly, the Council has the power to undertake the programme of works to replace and refurbish the leisure centre as set out in this report.
31. As stated elsewhere in this Report, the works will be procured by GLL on behalf of the Council. GLL will use their framework contractors to procure the works and ensure best value is achieved. This will be under the umbrella of an Agency Agreement between GLL and the Council relating to construction works to procure, upgrade and/or refurbish leisure facilities within the London Borough of Enfield ('Agency Agreement'). The Agency Agreement is being entered into to deliver VAT efficiencies for the Council pursuant to a change

to the VAT treatment of local authority leisure services in March 2023 and has been drafted by external lawyers. The reasonably incurred costs payable to a building contractor or consultant in relation to a project instructed under the Agency Agreement are to be treated as capital costs for the purpose of clause 23 of the Leisure Contract.

32. The terms of the Agency Agreement impose a number of obligations on GLL to ensure that any works instructed under its remit are procured and managed in accordance with the Council's expectations. For example, all services and construction work supplied to the Council must be procured using forms of building contract and appointment approved by the Council in writing, and all required insurances must be taken out and maintained.
33. The Agency Agreement states that GLL may instruct its own framework contractors to carry out the services, providing that it is able to demonstrate that the framework contractors are of good repute and sound financial standing and will provide the Council with best value.

### **Equalities Implications**

34. There are no equalities implications from the proposed recommendations within the report. This is because the recommendations relate to the release of capital to replace and refurbish parts of Southbury Leisure Centre and its mechanical systems. These works will have no impact on the ways the services are provided to our residents and centre users.

### **Environmental and Climate Change**

35. There will be positive environmental and climate change implications from the delivery of the recommendations outlined within this report. That is because the mechanical systems, equipment and roof replacement will be more efficient than what is currently present at the centre, resulting in energy and emission savings.

### **Public Health Implications**

36. The recommendation outlined within this report will result in one of the borough's key leisure assets remaining open and continuing to provide opportunities for residents to move and exercise more. Refurbished gym and changing village facilities will also encourage more people to use the centre who may not currently be active.

### **Other Implications**

37. The works will be procured by Greenwich Leisure Ltd. on behalf of the Council. GLL will use their framework contractors to procure the works and ensure best value is achieved. As outlined above, an Agency Agreement has been agreed with GLL to ensure the capital works can benefit from changes to the treatment of VAT for local authority leisure operations.

---

**Report Author:** Matthew Watts  
Head of Sport and Leisure  
[Matthew.watts@enfield.gov.uk](mailto:Matthew.watts@enfield.gov.uk)

### **Appendices**

Appendix 1 – Full business case for the proposed replaces and refurbishments.

Appendix 2 – Financial Summary

### **Background Papers**

No background papers for this report.

### **Departmental reference number, if relevant:**

ECPLC2425\_003

## Appendix 2 – Financial Summary

		<b>Option 1 Do Nothing - No Investment</b>	<b>Option 2 Minimal Investment</b>	<b>Option 2a Minimal Investment Conservative Growth</b>	<b>Option 3 Full project</b>	<b>Option 3 Full project £200k S106 / SCIL funding</b>	<b>Option 3a Full project Conservative Growth</b>	<b>Option 4 Close Leisure Centre and Dispose</b>
£'000	NPV (over 10 years)	1	5,108	3,724	6,073	6,073	4,515	3,398
	Incremental NPV		5,107	3,723	6,072	6,072	4,513	3,396
	Investment Required	-	1,393	1,393	2,428	2,428	2,428	752
	IRR	0	30%	23%	28%	28%	22%	173%
	Payback		4 Yrs, 11 Mths	6 Yrs, 7 Mths	4 Yrs, 6 Mths	4 Yrs, 6 Mths	5 Yrs, 8 Mths	1 Yrs, 2 Mths
	Revenue Impact							
	FY 2025/2026	(213)	(98)	(216)	18	43	(101)	(117)
	FY 2026/2027	(254)	20	(122)	190	215	24	(30)
	Revenue Impact vs MTFP							
	FY 2025/2026	(262)	(147)	(265)	(32)	(6)	(150)	(150)
FY 2026/2027	(303)	(29)	(171)	141	166	(25)	(25)	
<b>Assumptions</b>		Incremental income reduction between 20% - 60%	Base Income and Expenditure growth only	Base Income growth limited to 10%	Incremental income increase between 10% - 20%	Incremental income increase between 10% - 20%	Incremental income increase between 10% - 20% Base Income growth limited to 10%	Disposal proceeds of £4.75m expected to be delivered during FY25/26
		£300k revenue spend anticipated for equipment - split over 2 years						
		1% Management fee applied to capital costs						

### Key Assumptions for all options

#### Base Income Growth

Year 1	20%
Year 2	13%
Year 3 >	10%

MTFP assumes LBE's share of Partnership Surplus amounting to £49k p.a. for the foreseeable future

Base Income and Expenditure growth included for all options

Assume all work completed by December 2024

No further investment required in the next 10 years?

1% management fee applies to capital works - this is included in the calculations above

MRP rate of 3.5%