London Borough of Enfield

Report Title	Edmonton Leisure Centre
Report to	Cabinet
Date of Report	26th September 2024
Cabinet Member	Cllr Anyanwu – Cabinet Member for Environment, Culture and Public Spaces
Executive Director / Director	Perry Scott - Executive Director, Cheryl Headon – Interim Director Leisure, Parks & Culture
Report Author	Matthew Watts – Head of Sport & Leisure matthew.watts@enfield.gov.uk
Ward(s) affected	Edmonton Green
Key Decision Number	KD5762
Classification	Part 1 Public (please see separate appendix in Part 2)

Recommendations

I. Agree, in principle, to enter into a Shared Investment Partnership with GLL in order to secure the necessary investment in and continued operation of Edmonton Leisure Centre.
II. Agree to transfer £2.5m from Pipeline to the approved Capital Programme for the purpose of investing in dilapidations and essential maintenance at Edmonton Leisure Centre to be procured and managed by GLL pursuant to the Shared Investment Partnership.
III. Agree to assign the lease of the Edmonton Leisure Centre to GLL under the terms of the Shared Investment Partnership, subject to all necessary approvals, and to remove the centre from the existing Leisure Management Agreement with GLL.
IV. Grant authority to the Director of Leisure, Parks & Culture, Director of Finance, and the Director of Law & Governance to agree all legal documentation required for the purposes of the Shared Investment Partnership described in the report.

Purpose of Report

1. To set-out the level of investment required at Edmonton Leisure Centre (**Centre**) to enable the Centre to reopen, detail the options for how this investment will be funded, and to determine the future management model for the Centre.

Background and Options

2. The Centre opened to the public in 2007, having moved from its original location when the site was redeveloped, and a supermarket built. The Centre was leased on a full repair and maintenance lease to the Council from the building's owners St Modwen Development (now owned by Crosstree Real Estate Partners) on a peppercorn rent for 125 years from 25th March 1999. Enfield Council owns the freehold to the Edmonton Green site which incorporates the building in which the leisure centre is located and the surrounding properties.

3. Since the Centre opened, it has experienced a range of building issues that have resulted in regular temporary closures to either parts of the Centre, or at times, the whole Centre. The cause of the issues has been a combination of building design faults and other faults that have developed whilst maintenance responsibility was provided by the previous leisure operator. Regular closures and the quality of the Centre have impacted on its commercial viability and availability to our residents.

4. On 4th December 2023, GLL (trading as "Better") took over management responsibility of the Centre along with the other facilities that make up the Council's leisure centre portfolio. In the lead-up to the transfer, GLL undertook various assessments of each of the facilities to determine the scale of the maintenance liabilities and identify any immediate actions required as part of the transfer.

5. At the point of transfer, new issues were identified at the Centre, including issues with the pool plant and failure of the fire safety system. The identification of these issues at transfer led to the Council deciding that the Centre would remain closed on the 7th December (when the other facilities reopened) on the grounds of health & safety.

6. Given the identification of the new issues, plus the range of issues that were already known to be affecting the Centre, the decision was taken to undertake comprehensive intrusive assessments of the building fabric and the building services. The aim was to have a full picture of the level of investment required to bring the Centre back up to an acceptable and operational standard, and to help inform decision making regarding the Centre's future.

7. The intrusive surveys were commissioned by GLL on behalf of the Council and were undertaken between late January and the end of March 2024.

8. The findings from the intrusive assessments confirmed that there are significant maintenance liabilities affecting the Centre's building fabric and services, which have been estimated to cost £4.38m to return the Centre to an acceptable standard. The copy of the condition report is included in Appendix 1 of the Part 2 report, but a summary of the areas of expenditure and their level of priority is outlined in the table below:

Priority Level	Building Fabric Costs	Building Services Costs	Total
P1	£1,100k	£760k	£1,860k
P2	£390k	£105k	£495k
P3	£1,200k	£825K	£2,025k
Total	£2,690k	£1,690	£4,380K

P1 = Essential work required to address serious health and safety issues, correct any breach of legislation and repairs requisite to reopening a facility.
P2 = Repairs or improvements required to maintain continued use or functionality.
P3 = Recommended work to maintain standards or prevent deterioration of building assets.

9. The above cost estimates highlight that over £1.8m of investment is required immediately to simply address the serious health and safety issues and breaches of legislation that are currently affecting the Centre. An example being the faults with the fire safety system.

10. The remaining £2.5m is required to tackle maintenance liabilities to ensure the Centre's continued operation as a leisure centre and to prevent further deterioration to the building. These issues include tackling roof leaks, and the corrosion of the steel supporting beams above the pool hall.

11. The scale of the issues at the centre are significant, and the Centre cannot reopen until the Priority 1 faults have been addressed as a minimum. However, without addressing the full list of issues, the centre will continue to experience issues that will always impact on its commercial viability.

Commercial Viability

12. Whilst leisure centres deliver a range of physical and mental health benefits, as a non-statutory service, each facility needs to operate at zero cost to the Council. Unlike the other leisure centres in the Council's portfolio, the Centre does not make a surplus and it has operated at a loss for several years, as highlighted in the table below.

	2016/17 (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
TOTAL INCOME	1,631.7	1,509.7	1,508.7	1,310.4	572.0	717.7
TOTAL EXPENDITURE	1,764.8	1,532.8	1,560.8	1,521.3	916.2	1,133.9
NET SURPLUS / (LOSS)	(133.0)	(23.2)	(52.1)	(210.8)	(344.1)	(416.2)

13. The commercial performance of the Centre has been poor for several years which, to an extent, can be attributed to the regular closures and inadequate levels of maintenance at the Centre. To de-risk any future investment, options should be considered where there is a guaranteed payback for the Council and a mix of services that will grow usage of the centre.

Future Management Options

14. Given the level of investment required at the Centre and the commercial viability compared to the other leisure facilities, the following four options have been considered as a mechanism for delivering the investment required and protecting the Council's interests in these challenging fiscal times:

    i. Do nothing, and permanently close the Centre. This option will mean the Council retains all liabilities for maintenance and dilapidation costs along with business rates. This option will cost the Council £3.15m as further described below.
    ii. Council funds the £4.38m capital investment required to address the dilapidations and maintenance liabilities in order to secure the re-opening of the Centre to be managed as part of the existing contract with GLL.
    iii. Assign the lease to GLL and enter a Shared Investment Partnership with them under which the Council would "*pump-prime*" the essential dilapidation works by investing £2.5m for capital works and essential maintenance which would be repaid by GLL over a 30 year period. GLL would themselves also invest an additional £5m into the centre. The Shared Investment Partnership would operate on an open book basis and would include a profit share arrangement which is explained in more detail below.
    iv. To keep the centre closed for an extended temporary period, for example 2 years, and meanwhile identify requisite sources of funding for the dilapidations and maintenance liabilities with the aim of re-opening the centre in 2026. This option will mean we will retain

liabilities for maintenance and dilapidation costs along with business rates and would still need to find the capital funding within the next, say, 2 years.

Preferred Option and Reasons For Preferred Option

15. Considering the level of investment required and the historical commercial viability of the centre, the recommendation is to pursue option 3. This is because:

    - This option would ensue that a leisure offer would be retained in Edmonton where some of the borough's most inactive residents live.
    - Option 3 would de-risk the investment for the Council at a time when local government finances are under more pressure than ever before.
    - GLL would put their own capital into the building and facilities to deliver an exciting new leisure offer for the people of Edmonton and residents of the borough.
    - The long-term security of a community asset would be protected.
    - Whilst no longer under the direct control of the Council, the Centre would remain part of the borough's portfolio of leisure assets that would be closely aligned with the remaining GLL run Council leisure centres.

16. Option 1 has been discounted for the following reasons:
    i. The residents of Edmonton are among some of the least active within the borough and the permanent closure of the Centre would have a significant impact on the long-term health of those residents.
    ii. The Property Team has had the Centre valued in its current condition by Property Specialists Crosthwaites. They have concluded that in its current condition the Centre would attract a market value of £0 and only a peppercorn market rent.
    iii. A clause within the lease places an obligation on the Council to return the property to the landlord in the condition it was received. Consequently, the Council remains liable for the dilapidation costs of returning the building back to its original condition. As outlined in paragraph 8 above, the condition survey identified £2.69m of building fabric repairs that are required given the current condition of the Centre. The total cost of borrowing under option 4 is £3.15m made up of principal £2.5m and interest £0.65m.

17. Option 2 has been discounted given the amount of investment that is required and the likely return on the investment for the Council. Given the Centre has historically been loss making, there is a risk that any losses would result in a revenue pressure on the Council's existing open book arrangement with GLL. Some of the other options provide a lower risk for the Council and an opportunity to introduce a more sustainable commercial model at the Centre.

18. Option 4 has been discounted due to the uplift in the cost of undertaking the building works in two years' time. The costs would be higher due to an inflationary increase to the cost of the building works combined with a greater scope of works from two years further deterioration of the building and its

services. GLL has engaged the building surveyors that undertook the condition survey to estimate the likely impact on the cost of the repairs, who have estimated that building costs could increase by up to 15% with a further allowance of 20% to cover potential deterioration. Given this advice, the project costs could increase by up to £1.533m above the current cost estimates outlined in paragraph 8, and therefore this option is not considered financially prudent.

19. GLL has considered a range of different products for the Centre that they feel would retain a traditional leisure centre offer and bring new products to the area that would make the facility commercially viable. The proposal is that GLL would use their own capital investment to deliver the new products at the Centre. The proposed mix of products currently under consideration should the proposed option be approved are:

- 92 station gym.
- Fitness classes to return to the dance studio.
- Soft play / adventure play.
- Ten pin Bowling.
- Swimming.

Relevance to Council Plans and Strategies

20. The recommendations proposed within this report strongly aligns with and reinforces the Council's commitment to the priority of fostering Strong, Healthy, and Safe Communities, as outlined in the Council Plan 2023-2026. By adopting a sustainable model to reopen the Centre, the Council not only reaffirms its dedication to improving local services but also exemplifies its broader commitment to enhancing the quality of life for all residents, particularly those in the most deprived areas.

21. This proposal is a direct action under our pledge to improve leisure and sport opportunities, which are essential in promoting more active lifestyles, reducing health inequalities, and addressing the wider determinants of health. The reopening of the Centre will provide accessible spaces for physical activity, which is critical in combating the higher-than-average rates of obesity and inactivity in our borough. By doing so, we are actively contributing to the well-being of our residents, supporting them to live healthier lives, and ensuring that everyone, regardless of their background, has the opportunity to engage in positive, health-promoting activities.

Financial Implications

22. It is recommended to approve the Council’s proposed capital investment into the Centre (£2.5m) by way of a shared investment partnership with GLL as this will unlock match funding of £5m from GLL and facilitate the reopening of the centre.

23. GLL would repay the Council’s investment over the first 30 years of the agreement, by annual repayments of £83,333.33 per annum. This means that provided GLL continues with repayments, and remains a low risk

organisation, the Council will not be required to make a further MRP provision.

24. The Council will, however, be required to finance the interest on its contribution. LBE currently pays for service charges and insurance of £87k per annum (budgeted), which can be allocated to pay for the annual interest costs, this would leave a shortfall for the first eight years, starting at £36k in year one, reducing to £4k by year eight. The remainder of the shortfall may be funded from the expectation that, the GLL arrangement (for all other leisure centres) will deliver a surplus from next year which is currently not budgeted. In addition to this, the super normal profits may also contribute to this shortfall. However, neither of these are guaranteed.

25. The Leisure Centre is currently closed on the grounds of health & safety concerns; therefore, there is no income being received.

26. The Council currently has an open book arrangement with GLL with the Council underwriting any operating losses but sharing profits. The centre has historically made an operating loss, which would mean that even with investment and reopening the centre, there could be a negative impact on the MTFP, based on the existing open book arrangement. To mitigate this risk, as part of this project, Edmonton Leisure Centre will be removed from the exiting Leisure Management Agreement (contract) so that the open book is not affected by the commercial performance of the Centre in the future.

27. The Leisure Centre is currently costing the council between £200k - £260k per annum whilst it is closed, this is mainly driven by rates, insurance, service charge and utilities. This expenditure is reported in the monthly reporting which covers all leisure centre’s managed by GLL. The budget anticipated the spend above with no income associated with the Leisure Centre. The assignment of the lease to GLL would remove this cost and the risk associated with future losses.

28. The Council would initially fund the investment by borrowing. The revenue cost of this (net of GLL repayments) is £1.8m over 30 years (assuming a borrowing rate of £4.53%). This would increase to £2m if the borrowing rate was to increase to 5%.

    An illustration of the next 10 years has been included below.

Yr Ending	Interest	MRP*	Growth
31 Mar	£'000	£'000	£'000
2025	116	7	123
2026	112	0	112
2027	109	0	109
2028	105	0	105
2029	101	0	101
2030	97	0	97
2031	94	0	94
2032	90	0	90
2033	86	0	86
2034	82	0	82
2035	78	0	78
…	717	0	717
Total	**1,787**	**7**	**1,794**
*Annual Revision Required			

29. A 'super-normal' profit share arrangement will also be agreed for the Council, after top-ups to a sinking fund for the Centre and for GLL (as set out in the Part 2 report). Super normal profits will be calculated based on any positive trading surplus, once total income and total expenditure have been accounted for. Any prior year rolling losses would be recovered prior to any super normal profit split.

30. In terms of taxation, in order to protect the Council's Partial Exemption position, the Council will need to opt-to-tax the Centre. This has been factored into the business case for the recommended proposal.

31. Should the project not be undertaken in the way described in the report, the VAT implications will need to be reassessed.

Legal Implications

32. The Council has the power to assign the Lease of the centre pursuant to section 123(1) of the Local Government Act 1972.

33. Any disposal of an interest in land must be made in accordance with the Council's Property Procedure Rules and section 123 of the Local Government Act. Section 123(2) requires any such disposal to be made at best consideration. There is no specific process that must be followed in order to establish compliance with this requirement, or to demonstrate that best consideration has been received. Advice should be taken from the Council's property advisers to ensure that this requirement is met, or that assignment of the Lease falls under the General Disposal Consent (England) 2003. The proposed assignment of the Lease may fall under this consent if the disposal meets certain 'well-being' criteria.

34. Assignment of the Lease and the investment proposed under option 3, will be considered in light of the Subsidy Control Act 2022 but preliminary advice is that there would be no breach of the rules prohibiting certain subsidies to commercial entities.

35. The Council will enter into a variety of legal agreements with GLL which will give effect to the proposed Shared Investment Partnership and will secure appropriate security from GLL in respect of its capital investment in the event that, for example, GLL should become insolvent or otherwise is not able to deliver under the partnership agreement. This security could include a charge and legal mortgage over the Lease, a debenture or other security over the wider assets of GLL, financial bond or parent company guarantee, or an escrow agreement or charge over the GLL £5m cash contribution. There could also be a loan instrument agreed which could provide further security to the Council in respect of the capital investment. It is assumed that the rent will continue to be a peppercorn.

36. The Council will take further, detailed advice on the extent to which this arrangement would be governed by the Public Contracts Regulations 2015 (or the Procurement Act 2023), and any legal and procurement risk which might arise as a result. Imposition of development obligations on GLL in relation to the Centre is likely to bring the arrangement within the public procurement regime and constitute the direct award of a works contract and/or a concession contract. Works on the site to the value of £7.5m (£2.5m of which is funded by the Council), and the future provision of leisure services are conditions of the Assignment of the Lease and of the shared investment partnership.

37. Officers have considered whether this expenditure and any supporting documentation would conflict with the Council's own Treasury Management Strategy and are satisfied that it would not.

Procurement Implications

38. As the scope of the existing GLL leisure contract will change, there will need to be an amendment to the existing contract documentation.

Equalities Implications

39. A full EQIA has been completed to support the proposed assignment of the Lease to GLL. The findings of this assessment are that there will be no impact on the service provided to the residents of Enfield, including those residents with protected characteristics. This is because the scope of the services provided by GLL will be unchanged from those within the current contract.

HR and Workforce Implications

40. When Edmonton Leisure Centre closed on 4th December 2023, the staff based at the facility were redeployed to the other centres in the Council's leisure centre portfolio. These staff covered existing vacancies and helped ensure a smooth transition. Should the proposals within this report be approved, then it would provide the opportunity for the original Edmonton centre staff to apply for the new roles at the facility. The proposals within the report would also create a range of new job opportunities that would be available for the local community.

Environmental and Climate Change Implications

41. The recommendation within this report is to assign the Lease to GLL and for it to have complete management control of the Centre. Consequently, it is not believed that this transfer of management and leasehold responsibility would lead to any new environmental or climate change implications than if the Council continued to manage it via its leisure contract with GLL.

Public Health Implications

42. The proposed recommendations outlined within this report would provide positive health outcomes for the residents of Edmonton. The traditional leisure centre offer of swimming, gym, and exercise classes would provide opportunities for those residents that might have become less active since the centre closed to regain an active lifestyle, and the proposed mix of new products will reach a new section of the community who may not have used the Centre previously.

43. The proposals outlined within this report will enable more residents to be active and move more.

Property Implications

44. These are addressed in the main body of the report.

Safeguarding Implications

45. There are no safeguarding implications from the delivery of the proposals outlined within this report. Safeguarding will remain the responsibility of the leisure operator for children and vulnerable adults using the Centre.

Crime and Disorder Implications

46. The recommendations outlined within this report, if implemented, would provide diversionary opportunities for the young people of Edmonton. This could potentially help to reduce crime and disorder within Edmonton.

Report Author: Matthew Watts
Head of Sport & Leisure
Matthew.watts@enfield.gov.uk

Appendices

Please see Part 2 Report

Background Papers

There are no background papers relevant for this report.

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