

This Report will be made public on 6 December 2022

Report Number **C/22/64**

To: Cabinet
Date: 14 December 2022
Status: Key Decision
Responsible Officer: Ewan Green, Director of Place
Cabinet Member: Cllr Jennifer Hollingsbee, Deputy Leader and Cabinet Member for Communities

SUBJECT: FOLKESTONE SPORTS CENTRE GRANT

SUMMARY: The grant agreement with Folkestone Sport Centre Trust ends in March 2023. The current grant is for £150,000 per annum. Folkestone Sports Centre Trust have developed with the support of consultants, a business plan to assist the recovery of the business from the pandemic. To support the new business plan, the Trust have made a request to council for its continued financial support through a new grant agreement for £150,000 for five-years. The report recommendation is to agree a grant award for a shorter period of three-years.

REASONS FOR RECOMMENDATIONS:

The new grant agreement would support Folkestone Sport Centre Trust's new business plan, its recovery from the pandemic and the continued operation of the leisure centre.

RECOMMENDATIONS:

1. To receive and note report C/22/64.
2. To approve that the council enters an agreement with Folkestone Sports Centre Trust for provision of an annual grant of £150,000 for a fixed period of three-years starting from April 2023.

1. BACKGROUND

1.1. In April 2020, the council entered into a three-year grant funding agreement with Folkestone Sport Centre Trust Ltd (the Trust). The grant was for a fixed sum of £150,000 each year. The grant agreement was a successor to several previous agreements with the Trust.

1.2. The purpose of the grant was to: -

- To support the running / maintenance costs of the swimming pool.
- To ensure a well-maintained community swimming pool which is accessible to all.
- To enable public access to a community swimming pool at affordable prices.
- To facilitate school swimming sessions / lessons for children and young people in the district.
- To maintain a community facility which supports the broader public health agenda of partner agencies / the Local Health and Wellbeing Board including promoting participation in sport and physical activity.
- To provide and market opportunities for people in the local community to swim recreationally as a means of improving public health and tackling social isolation.
- To support a community facility for the purpose of competitive sport / sports development.

1.3. The funding was conditional on the Trust providing: -

- A scheduled programme of maintenance and repair works for the swimming pool being shared with the council before the start of each financial year.
- An annual inspection by a nominated council officer to ensure the works have been completed to a satisfactory standard.
- The production of a five-year business plan to reduce the financial dependency on the Council for grant funding.
- An annual report to the Council summarising the work of the Recipient to support community development, sports development and health and wellbeing in the district.
- A minimum of three keeping in touch meetings between a nominated council officer and representative of the Recipient.

1.4. The Trust has generally met the conditions of the grant agreement, although the Trust's operations during the period of the last agreement were severely impacted by the pandemic. In this period, there has been a significant drop in the Trust's incomes from its activities and participation levels have not yet fully recovered to pre-pandemic levels. The Trust made an operating loss in the last three-years (including a projected loss for 22/23) which has only mitigated through central government Covid-19 support funding, Covid-19 recovery loans and the continued FHDC grant.

- 1.5. In February 2022, the Trust asked the council if it could advance the payment of the 22/23 grant to assist their cash flow position. This was agreed. At that time, the council also offered the Trust funding for consultancy support to produce a new 5-year business plan to assist with the recovery of their business. This offer was accepted and funding of £10,500 agreed and a new business plan prepared.

2. BUSINESS PLAN AND GRANT REQUEST

- 2.1. The current funding agreement makes no commitment to future funding and the Trust has been consistently advised that this is not guaranteed. This was reiterated when the offer was made to fund consultancy support for the business plan. However, it was anticipated that the Trust would seek to make an application for a further grant, and that the new business plan would provide a basis to support any application. In October 2022, the FSCT General Manager on behalf of the FSCT board made a request for a new grant agreement.

- 2.2. The Folkestone Sport Centre Business Plan is attached as Appendix 1. It is a detailed document, and the following summarises the main points relevant to the grant request: -

- The plan lists a series of immediate, short term, medium term, and long-term actions (summarised p44) with the objective of addressing the main risks facing the business (p49). These can be described broadly as improved cost control, greater financial sustainability, and a clearer business strategy for commercial and asset management.
- The financial objective of the plan (page 43) is to return the Trust to an operating surplus Year 2 and then continue to grow. The plan projects revenues to increase from £1,381,237 in Year 1 (23/24) to £1,705,558 by the end of Year 5 of the plan. This will be achieved with plans to recover customer participation to pre-pandemic levels by Year 2 then followed by further growth in visitors. Overall, the plan projects an increase in forecasted paid visits to the leisure centre from 280,453 in 23/24 to 369,969 by the end of Year 5.
- At the same time, the Trust plans to control costs to around £1,570,000 per annum for the first three-years. This will be achieved through reducing debt, staff restructures, improved cost control and the possible outsourcing of some functions.
- The financial model (page 43) includes a continued grant from council of £150,000 per annum for a five-year period to support the business recovery of the Trust and the ongoing operations.
- An important point, the business plan predicts that from 22/23 at least until the end of Year 2 that the Trust will run with an operating deficit (excluding depreciation) projected at £286K for 22/23 and £79K for 23/24). These figures include the continuation of the £150K grant from FHDC. The losses would be met from the Trust's remaining reserves and

an anticipated overage payment from a previous land sale expected to be paid by the end of financial year 22/23.

- Details about the overage payment estimated at £800,000 are covered in Part 10 on pages 41 and 42. Around £400K of the overage payment will be used as unrestricted funds to support the operation of the Trust and cover operating deficits. Around £200k will be used to reduce debts through early repayment. A further £200K will be used to invest in new plant room equipment.
- 2.3. From the council's perspective, the business plan gives a level of assurance about the necessity of a future grant and how it would be used to support the financial recovery of the Trust. The business plan is also ambitious and to succeed depends on several internal changes being implemented and an improved business focus.
- 2.4. Externally, the Trust faces three main financial risks to its recovery. The first is if incomes from participation do not improve as expected either due to competition from other providers or general economic conditions. The second is if costs cannot be controlled as anticipated due to inflationary pressures or other factors like sustained increases in utility costs. Lastly, if uncertainty in the housing market reduces the overage payment. This would limit the ability to use of this income to mitigate operating deficits in the early years of the business plan and reduce loan repayments in the longer term. The business plan seeks to address these issues, but risks will remain.

3. OPTIONS

- 3.1. The council's medium term financial strategy includes a provisional allocation for a continued annual grant of £150K to the Trust although as previously stated no commitment has been made to any future grant award.
- 3.2. The options in response to the Trust's request for a new grant are: -
- No grant awarded.
 - Grant awarded for lower amount than requested.
 - Grant awarded on the basis requested by the Trust (£150K x 5 years).
 - Grant offered for a shorter period (£150K x 3 years).
- 3.3. **No grant award** – This would result in a financial saving to the council. It is clear from the Trust's business plan that this would negatively impact on their ability to recover the business, possibly leading to a reduction in the sport and community programmes or putting the continued operation of the leisure centre at risk. This is not recommended due to the potential community impact.
- 3.4. **Lower grant award** – There is the option of offering the Trust a reduced grant (e.g. £100,000) or a grant that reduces over the period of the agreement. This would result in a partial saving to the council but would require a revision to the Trust's business plan. It is likely this would adversely impact on the Trust's recovery particularly in the critical early years of the plan. For this reason, it is not recommended.

- 3.5. **Five-year agreement** – This option requested by the Trust as it would give them certainty over the full period of its business plan.
- 3.6. **Shorter period** – The current grant agreement was for three-years although previous agreements had been for longer periods. The current request is for a five-year agreement (£750,000 in total) and the business plan is based on that commitment continuing over the full period of plan. However, the business plan does predict the Trust returning to an operating surplus by the end of Year 2 and this surplus being more than £150K. There is therefore the option for a shorter funding agreement (e.g. three-years). Taking into consideration the council's own financial position and the pressures on revenues in MTFS period, **the recommendation is for the next funding agreement to be fixed at three-years** (£450K in total). Furthermore, no commitment can be given to any future funding agreements and the Trust must use the opportunity provided by this next agreement to place itself in the position that it no longer financially relies on the continued provision of a grant by the council.

It is recommended that the new grant agreement includes the following terms.

- The grant agreement is for a limited period and no commitment is made to future funding.
- The purpose of the grant is to support the general operations of the leisure centre. The agreement however continues to support the provision of a publicly accessible swimming pool and the teaching of swimming to young persons.
- The Trust provides written confirmation of the value and timing of the overage payment.
- The grant conditions as set out in the current agreement are continued in terms of monitoring, reporting and liaison meetings. Additionally, to mitigate the financial risk to the grant, the following requirements should be included: -
 - The Trust provides regular progress updates on the implementation of the business plan.
 - The Trust provides monthly updates of its operating revenues and costs and cash flow.
 - Whilst the intention is that that grant agreement is to be paid in full at the start of each financial year, council officers can stage payments in installments if considered expedient due to the financial risk.
 - The Trust notifies the council in advance of any additional loans or borrowing it is seeking to undertake during the period of the grant agreement.

3.7. Subject to approval of a new grant, the next steps would be for a new grant agreement is drafted by Legal Services based on the terms as set out in 3.6.

4. RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Financial loss of the grant if the leisure centre ceases operations mid-year.	High	Medium	<ul style="list-style-type: none"> Regular reporting of the Trust's P&L figures. Agreement to pay grant instalments if necessary.
Participation figures do not recover or costs cannot be controlled e.g. further increases in utility costs and/or economic uncertainty.	High	Medium	<ul style="list-style-type: none"> 5-year business plan gives clear strategy to the Trust.
The Leisure Centre closes – Loss of a community facility, impact on local sports programme, loss of swimming pool, and impact on their community support programme.	High	Medium	<ul style="list-style-type: none"> 5-year business plan gives clear strategy to the Trust. Continued financial support from FHDC grant.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1. Legal Officer's Comments (NM)

There are no legal implications arising directly out of the supply of the grant funding by the Council on the basis that the Folkestone Sports Centre Trust enters into a Grant Agreement with the Council.

5.2 Finance Officer's Comments (RH)

Financial implications are set out in the body of the report. To confirm, an amount of £150,000 p/a is within base budget.

5.3 Diversities and Equalities Implications (AR)

There are no equalities implications arising from the report.

5.4 Climate Change Implications (OF)

There are no climate change implication arising from this report.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Andrew Rush
Chief Officer – Place & Regulatory Services
Telephone: 01303 853271
Email: andrew.rush@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Appendices:

Appendix 1: Folkestone Sports Centre Trust Business Plan