

THE HIGHLAND COUNCIL
EDUCATION CULTURE AND SPORT COMMITTEE
15 JANUARY 2009

Agenda Item	
Report No	

INVERNESS LEISURE REVENUE FUNDING

Report by Director of Education, Culture and Sport

Summary

Inverness Leisure receives a management fee of £900K p.a. from the Council for the operation of the facilities which comprise Inverness Leisure. The second, three year funding agreement with Inverness Leisure comes to an end on 31 March 2009. User figures improved significantly however, unforeseen rising costs, primarily in utilities, have led to a projected deficit at the end of its financial year. This report recommends how this may be addressed and the preparation of the new three year agreement.

1. Background

- 1.1 Inverness Leisure is the trading name of Caledonia Community Leisure Limited (CCLL) which is a charitable company, limited by guarantee. It operates the facilities at Inverness Leisure formerly known as Inverness Sports Centre and Aquadome.
- 1.2 The facility was built in two stages. The Council owns the sports centre (which is 15 years old) with the swimming pools and associated facilities (which are 11 years old) being owned by Loch Ness and Highland Horizons (a company which is wholly owned by the Highland Council and was established by Inverness District Council to develop the capital project).
- 1.3 Loch Ness and Highland Horizons is in the process of being wound up which means that the whole facility will soon be directly owned by the Council.
- 1.4 Given the age and regional profile of the facility, the Council is committed to investing £2M in capital refurbishments over the next three years from the ECS Capital Programme.
- 1.5 Following a deficit caused by adjustments to the way income had been administered prior to financial year 2006/2007, an agreement was reached with Inverness Leisure's auditors to trade through the deficit over two years. This approach was agreed by the Education, Culture and Sport Committee. Unfortunately, the unexpected significant rise in utility costs has meant additional pressures which are over and above this agreement. Without the unforeseen size of increase in utility costs, the facility would have been on track for trading out of its short term deficit

2. Financial Background

- 2.1 In 2001 a report on the management and operation of the facility was completed by Genesis Consulting which concluded that a facility of that size should operate on budget of £750 to £900K p.a. The annual management fee from the Council was set at £900K and this same figure, with no inflation, was agreed for a second three year term which comes to an end on 31 March 2009.

- 2.2 The improved performance of the Company has meant that over the six years it is now operating at the equivalent of the lower end of the expected costs for a building of that size. Despite Inverness Leisure's improved performance, a year end cumulative deficit of £104K is projected for 2008/9, predominantly because it is such an unavoidably high utility user.

3. Facility Performance

- 3.1 Since the introduction of the High Life scheme, a national trend of falling participation has been reversed at Inverness Leisure. User numbers have increased by over 40% and income has increased by almost £180K p.a. This has brought about an improved social role and much better market penetration. The deficit per user is currently £1.12, which ranks Inverness Leisure's performance as third out of nineteen Scottish leisure trusts.

4. Addressing the current budget deficit

- 4.1 The Council has agreed that the balances (approximately £100K) held by Loch Ness and Highland Horizons be transferred to Inverness Leisure for the update and renewal of infrastructure items. The Council may wish to relax this criteria to increase this year's management fee in recognition of the significant rise in user numbers – which would address the budget deficit currently facing Inverness Leisure.
- 4.2 Effect of the recent fire – The recent fire in the plant room meant the closure of the swimming side of the Centre. The competition pool has now been re-opened but the leisure waters are still under repair. Income interruption insurance was taken out some time ago and was recently increased because of the greater usage of the facility as a result of the introduction of the High Life scheme. In terms of effect on the Council's management fee, as it is supplied on the basis of pre fire volumes of business, it should be recalculated downwards to reflect the lowering of service provided. The balance between what might reasonably be expected by Inverness Leisure via an insurance claim and the potential reduction in management fee is under review as the repair works progress. It is too early to say whether this aspect may have the eventual effect of lessening or raising the projected deficit for this financial year.

5. Ongoing revenue funding

- 5.1 Given that the management fee for Inverness Leisure has not increased in six years and utility costs have increased significantly, officers have been working on reviewing the management fee agreement so that this can be considered by the ECS Committee when it sets its budget for financial year 2009/10. A presumed £100k has been lodged for consideration.
- 5.2 In calculating a new management fee, once LNHH has been wound up, the Council could decide not to collect the previous £10K p.a. rent for the part of the facility housing the swimming pools. This would place the facility on the same basis as Eden Court Theatre, which has a rental of a "pound a year, if asked." Depending on the market valuation, the consent of Scottish Government Ministers might be required for this.

Recommendations

The Committee is invited to note:-

- i the improvement in the performance of Inverness Leisure over the past six years;
- ii the challenge posed by increased utility costs;
- iii the ongoing calculations regarding income interruption insurance and the Council's management fee for 2008/9;

and agree:-

- iv to relax the previously agreed criteria of the Loch Ness and Highland Horizons balances so that they can be used to increase this year's management fee in recognition of the increased user numbers, which would address the deficit at the end of 2008/9;
- v that officers continue to carry out the preparatory work for a further three year agreement with Inverness Leisure, based on a refreshed business plan for the facility and which will include reviewing the management fee; and
- vi to waive the rental previously paid to LNHH for the pools part of the facility – as part of the revised new three year agreement.

Signature:

Designation: Director of Education, Culture & Sport

Date: 23 December 2008

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