

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 10 June 2013

<b>Portfolio:</b>	Community
<b>Subject:</b>	<b>Lockswood Community Centre Business Plan</b>
<b>Report of:</b>	Director of Community
<b>Strategy/Policy:</b>	Leisure Strategy
<b>Corporate Objective:</b>	Leisure for Health and for Fun

#### **Purpose:**

To consider the businesses plan from the Lockswood Community and Sports Association for the operation of the Lockswood Community Centre and the arrangements for transferring the management of the building to the newly formed Association.

#### **Executive summary:**

The management of the Lockswood Community Centre at Centre Way, Locks Heath transferred from the Brookfield Community School (Western Wards Campus) to Fareham Borough Council on 1 April 2012 with a budget deficit of £56k

The Executive in October 2012, made a commitment to support the running of the Lockswood Community Centre for the remainder of the 2012/13 financial year. Officers were requested to urgently and actively pursue the formation of a community association to take over the operation of the centre and were asked to review the situation after six months.

A further report to the Executive in March 2013, confirmed that six current users of the Lockswood Community Centre had expressed an interest in forming a charitable organisation to take on the lease for the management of the centre.

This group have since formed a registered charity, the Lockswood Community and Sports Association, and have developed a business plan, contained in appendix A, with the aim of taking over the management of the community centre.

The business plan sets out an operating budget for two years following transfer of the building from the Council to the Association. This plan indicates a break even position but is considered to be marginal and therefore requires a series of interim measures to support the cash flow position of the newly formed trading organisation. The report explains these measures and the proposed arrangements for transferring the management of the facility from the Council to the Lockswood Community and Sports Association.

**Recommendation:**

The Executive agree the following:

- i. To note the 2 year operating budget from the Lockwood Community and Sports Association for the management of the Lockwood Community Centre.
- ii. To provide an interest free loan of £7,000 to the Lockwood Community and Sports Association (to be repaid in full by 31 July 2015);
- iii. The Council retain responsibility for payment of the utility bills for the building for the first two years of operation, with the cost being reimbursed to the Council at the end of the financial year;
- iv. That the Council act as a guarantor of the Lockwood Community and Sports Association's pension liabilities on the understanding that the scheme is closed to new members when acceptance of admitted body status to the Local Government Pension Scheme is confirmed;
- v. That the management of the Lockwood Community Centre is transferred to the Lockwood Community and Sports Association under a " Tenancy at Will" agreement for an initial period of up to two years, as an interim measure, prior to lease terms being finalised.
- vi. Under the tenancy at will agreement, the Council retain responsibility for the maintenance of the Lockwood Community Centre building.

**Reason:**

To agree the arrangements for the transfer of the management of the Lockwood Community Centre from the Council to the Lockwood Community & Sports Association.

**Cost of proposals:**

The costs associated with the proposal are set out in the body of the report.

**Appendix A:** Lockwood Community & Sports Association Operating Budget  
(Appendix A is confidential).

**Background papers:**

Executive - 1 October 2012 - Lockwood Community Centre

Executive 4 March 2013 - Lockwood Community Centre

# FAREHAM

## BOROUGH COUNCIL

### Executive Briefing Paper

**Date:** 10 June 2013

**Subject:** Lockwood Community Centre Business Plan

**Briefing by:** Director of Community

**Portfolio:** Community

#### INTRODUCTION

1. The management of the Lockwood Community Centre at Centre Way, Locks Heath transferred from the Brookfield Community School (Western Wards Campus) to Fareham Borough Council on 1 April 2012.
2. Brookfield Community School took the decision to withdraw from managing the facility following the County Council decision to withdraw grant funding for community schools in 2011.
3. Seven permanent members of staff and one casual member of staff, employed at the centre, transferred from Hampshire County Council to Fareham Borough Council under TUPE regulations.
4. The Executive at its meeting in October 2012, made a commitment to support the running of the Lockwood Community Centre for the remainder of the 2012/13 financial year. Officers were requested to urgently and actively pursue the formation of a community association to take over the operation of the centre and were asked to review the situation after six months.
5. A further report to the Executive in March 2013 confirmed that six current users of the Lockwood Community Centre had come forward expressing an interest in forming a charitable organisation to take on the lease for the management of the centre. The group were working with officers to develop a business plan with the aim of the newly formed Association taking over the management of the centre in early summer 2013.

#### CURRENT POSITION

6. When the Lockwood Community Centre was transferred from Brookfield Community School to the Council there was limited financial information available and the estimate provided for the operational budget showed a deficit in the region of £56,000.

7. For the financial year 2012/13 the operating deficit is forecast to be £31,000. This is less than the estimated £52,000 deficit reported to the Executive in October 2012.
8. This is due to improved financial management and the inclusion in the budget of a £20,000 grant from the HCC that was awarded to the Council to cover the transfer costs when the building and staff came across to the Council in April 2012.
9. The boilers and the heating/ hot water system were in a poor state of repair when the facility was transferred to the Council. It eventually failed towards the end of 2012 and could not be repaired. This necessitated the immediate replacement of the boilers in order to maintain the operation of the building at a cost of £20,000. It is likely that further works will be required in the future to replace the controls, which are dated and not compatible with the new boilers, in order for the system to operate efficiently.
10. A significant amount of the total expenditure is apportioned to the cost of the seven members of staff that were transferred over to the Council under TUPE arrangements. A review of the staffing structure concluded that the number of staff employed was excessive for the size of facility and the level of income generated.
11. Therefore, a staff restructure has been undertaken resulting in 1.74 Full Time Equivalent posts being deleted and voluntary redundancy being agreed for 4 employees leading to a budget saving of £38,500. The new structure takes effect from June 2013.

## **NEW COMMUNITY ASSOCIATION**

12. Six individuals from groups who currently use the Lockwood Community Centre have set up a Charitable Incorporated Organisation (CIO) which is a new legal form for a charity. The name of the charity is the Lockwood Community and Sports Association (LCSA) and the Charity Commission awarded charitable status on 8 April 2013.
13. This group has been meeting regularly with officers and local ward councillor, Mrs Susan Bayford, over recent months. The aim being to consider the different issues that need to be resolved to enable the newly formed charity to take over the management of the Lockwood Community Centre.
14. One key factor is to ensure the Association has a robust business plan that demonstrates they have the financial capacity to manage the facility on a sustainable basis. The operating budget plan and related arrangements are set out in the following section of the report.

## **BUSINESS PLAN**

15. A summary of the Association's 2 year operating budget is contained in appendix A. The summary indicates a projected surplus of £8,700 in year 1 and a surplus of £13,081 in year 2.

16. Even though the operating budget is indicating a surplus, this is considered to be a marginal break even position that will provide some contingency in the event of income and expenditure fluctuations. It is also essential for the newly formed Association to build up some balances in order to become a sustainable business operation.
17. However, in order to achieve this position in the initial trading period, the newly formed charity requires a number of interim measures to support the operation, to ensure there is adequate cash flow to pay staff costs and cover regular periodic expenditure.
18. The figure for income includes provision for a recharge from Hampshire County Council (HCC) to the Association for costs associated with the provision of the library service, which is an integral part of the community centre building, located on the ground floor.
19. The recharge is calculated as a percentage of the core operational costs incurred by the Association and therefore has the potential to fluctuate depending on the operational expenditure over the year. The sum involved represents a significant proportion of the budget and therefore the current arrangement for payment by HCC at the end of the financial year presents a cash flow problem for the Association.
20. To assist with the cash flow, it is proposed that the Council retain responsibility for payment of the utility bills, estimated at £15,000, for the building. The cost will then be reimbursed to the Council at the end of the financial year when the recharge payment is received from HCC for the library operational costs.
21. This arrangement will assist to reduce the cash flow burden for the Association. However, as the income stream from hiring's and activities is not consistent there will be a need for the Council to provide the Association with an interest free loan of £7,000 in order to cover the cost of staff wages in the early months following transfer. It is proposed that the Association should repay the interest free loan to the Council by 31 July 2015 or earlier, if and when sufficient income has been received to cover the cost of the operating expenses and the loan.
22. The current rateable value for the Lockwood Community centre is £30,000. This is considered to be excessive for a facility of this type and size and therefore a rate review has been instigated.
23. Currently the policy for Council owned community centre buildings are to charge a rent of 15% of the rateable value. With regards to Lockwood Community Centre this would amount to a rent of £4,500.
24. Given the marginal break even projections in the operating budget, levying a £4,500 charge for rent in the first and second year will weaken this position further. Therefore it is proposed to levy a discounted rent of £1,500 in the first year increasing to £3,000 in the second year of operation. If a sustainable trading position is reached at the end of the second year then the intention is to implement a rent equivalent to 15% of the rateable value in year 3.

## **STAFF ARRANGEMENTS**

25. The staff employed at the centre will be transferred from the Council to the Association under TUPE arrangements. Following the staff reorganisation there are three members of staff, 1.17 full time equivalents and one casual employee, who will be transferred to the Lockwood Community and Sports Association.
26. There are two staff who are currently members of the Local Government Pension Scheme (LGPS) and there is a legal obligation to ensure comparable pension provision for staff transferring under TUPE.
27. The Association are in the process of applying for admitted body status for the LGPS. However, under these regulations a guarantor of the body's pension liabilities is a requirement and the Council would need to agree to fulfil this role.
28. The intention is that the scheme will be closed to new members when the Lockwood Community and Sports Association receive confirmation that it has admitted body status to the LGPS.

## **TENURE ARRANGEMENTS**

29. Lockwood Community and Sports Association have made good progress with the development of the business plan but there is a need for the newly formed charity to establish itself and gain experience in the management and operation of a public building.
30. The current building presents a number of operational challenges as highlighted with the need to replace the boilers in the last year. There is also an issue with regards to the long term future of the building which is dependent on the outcome of the proposal being considered to redevelop the Locks Heath Shopping Centre.
31. In order to enable the Association to focus on the management of the service it is proposed that they take over the management of the building under a tenancy at will agreement for an initial period of up to two years rather than a full lease.
32. Under this arrangement the Council will retain responsibility for the maintenance of the building. These arrangements would remain in place for at least the duration of the first year of trading for the Association or until such time that the terms of a lease agreement can be finalised and the operation is deemed to be sustainable.
33. This interim measure will provide the opportunity and time to evaluate the management arrangements and allow further consideration for the appropriate lease arrangements that ensure a sustainable and effective service. It is hoped that a decision on the future of the Locks Heath Shopping Centre will be determined over the next year and this again would inform the future lease arrangements.

## **RISK ASSESSMENT**

34. The newly formed Lockwood Community & Sports Association will require support and assistance in the early stages of any transfer to enable them to establish a sustainable operation.
35. The Association have requested a loan from the Council to assist with cash flow and the proposal is for the Council to pay utility bills at least for the first trading year. The intention is that these costs will be recovered at the end of the first financial year but there is a risk that the Association will not have sufficient funds to refund the costs within the proposed timeframe.
36. The proposed tenancy at will agreement includes provision for the Council to underwrite the maintenance liabilities in the short to medium term while the problems identified with the boiler controls and pipe work are resolved.
37. Under the LGPS regulations, in order for the Association to obtain admitted body status a guarantor of the body's pension liabilities is a requirement and the Council would need to agree to fulfil this role.

## **FINANCIAL IMPLICATIONS**

38. The key financial implications are set out within the report. In addition there will be some legal costs associated with the TUPE transfer arrangements and LGPS transfer. It is proposed that the Council will provide a short term interest free loan of £7000 to the Association, to be repaid by 31 July 2015.
39. There will be a saving to the Council following transfer of the management arrangements as the current operational deficit of £31,000 in 20012/13 will be alleviated.

## **CONCLUSION**

40. Significant progress has been made in delivering the requirement of Executive for the formation of a community association to take over the operation of the Lockwood Community Centre.
41. Six individuals from groups who currently use the Lockwood Community Centre have set up a Charitable Incorporated Organisation, the Lockwood Community and Sports Association, with the specific aim of taking on the management of the facility.
42. Over the last 12 months, officers have been implementing measures to reduce the cost base of the operation including a reduction in staff employed to operate the building. This has meant that the trading deficit has been significantly reduced thereby providing a realistic opportunity to establish a viable business arrangement.

43. The Association have prepared a business plan that sets out an operating budget for two years following transfer of the building from the Council to the newly formed Association. This plan indicates a break even position but is considered to be marginal and therefore requires a series of interim measures to support the cash flow position of the newly formed trading organisation.
44. With these measures in place and with the ongoing support of the Council, the Lockwood Community and Sports Association are in a reasonable position to take on the management of the centre.
45. These interim arrangements have the potential to significantly reduce the Councils current financial liabilities and for the newly formed Association to establish a sustainable trading position.
46. It also provides the opportunity for the Council to conclude the project considering future development proposals for the Locks Heath Shopping Centre prior to agreeing any permanent lease arrangements for the Lockwood Community Centre.

**Reference Papers:** None