

ITEM 4E

Cabinet 16th June 2015

Letchworth Leisure Management Contract and Development of North Herts Leisure Centre

A credit check report run today (accounts dated 30/07/14) shows SLL to be in a healthy state (noting that one of their directors is the former Director of Resources – now newly appointed Chief Exec for Stevenage borough council)

To summarise responses to the points raised in the email on page two of this note:

- The £220,776 will form part of the management fee and this is uprated by RPI each year (as at September). Acknowledged that the report does not make this clear.
- SLL provide the Council with Income & Expenditure accounts for each contract (each leisure centre). These are discussed at the contract meeting and SLL are required to explain any significant variances. The detailed management accounts for NHLC prepared quarterly by SLL are reviewed by both the service manager and the Group Accountant for Customer Services (in compliance with Internal Audit recommendations).
- SLL's Auditors are Wagstaffe's. SLL provide a letter annually from their auditors to confirm the accuracy of the contract income & expenditure a/cs
- If the reference to internal cost centre transfers refers to hidden subsidies – there are none.
- The calculation of payments to NHDC has been assessed by the Head of Leisure & Environmental Services and the Contracts & Projects manager
- A detailed analysis of the SLL Business Plan was undertaken by Head of L&ES and Contracts & Projects manager at contract award in 2013. This contract was tendered competitively. The Finance team undertook the financial evaluation of the tender at this time.
- The Head of L&ES and Contracts & Projects Manager have analysed SLL's proposed variation to contract including assumptions around new and revised income streams
- In terms of "what if" scenarios, these were not provided as this is a proposed variation to contract, as allowed for within the contractual arrangement
- With regard to risk assessments and VAT status: They won a competitive tender in 2013, so assessment of management/structure etc. took place then. A Credit check (as of today) shows them to be in a healthy financial position. Noted that SLL are also taking a risk – that they cannot fill the facility.
- Not quite sure what the query about VAT is driving at, however attempt to answer by confirming that the profit share is exclusive of VAT.
- Also note that we have agreed (i.e. NHDC, SLL and independent review by PriceWaterhouseCoopers) that the management fees are vatable . NHDC pay vat on these, but are then able to reclaim. This would not change, regardless of SLL vat status.

Andy Cavanagh

Extract of email received from Cllr Leal-Bennett:

(all responses are provided on page 1 and repeated here against each query raised)

It is proposed that the Stevenage Leisure contract be extended a further 5 years to 2024 and that in exchange for NHDC upgrading the facility and spending over £3m, that SSL increase their payment to NHDC. The report states 10.1 "SSL financial bid shows an overall annual increased payment of £220,776 to the council", no mention of index linking.

- **Response:** The £220,776 will form part of the management fee and this is updated by RPI each year (as at September)

I am extremely concerned that this figure, provided by SSL, has not been sufficiently analysed. I am fully aware that there is a "profit sharing" element but the base line is the amount stated and I would wish to be assured that this is correct and should not be higher.

As such I respectfully request your assurance that in arriving at the figure of £220,776 the following due diligence has been undertaken:

1. Detailed analysis of the accounts of SSL for the last 3 years to include
 - Income and Expenditure on Letchworth Leisure Centre (this breakdown is not shown in SSL's published accounts)
 - **Response:** SLL provide the Council with income & expenditure a/cs for each contract (each leisure centre). These are discussed at the contract meeting and SLL are required to explain any significant variances. The detailed management accounts for NHLC prepared quarterly by SLL are reviewed by both the service manager and the Group Accountant for Customer Services (in compliance with Internal Audit recommendations).
 - Independent audit of these figures to ensure that they represents a true picture
 - **Response:** SLL's Auditors are Wagstaffe's. SLL provide a letter annually from their auditors to confirm the accuracy of the contract income & expenditure a/cs
 - Any internal cost centre transfers be explained.
 - **Response:** I think this is a reference to any "hidden subsidies – there are none
 - Independent audit of the calculation of the NHDC payment.
 - **Response:** Assessed by Head of L&ES and contract manager
2. Detailed analysis of the SSL Business Plan showing projections for the next 5/10 years, to include –
 - Response:** this was done by Head of L&ES and contract manager at contract award in 2013. This was a competitive tender exercise. Finance team undertook the financial evaluation of the tender at this time.
 - SSL Financial Model and Projections for the next 10 years including
 - Inflation assumptions
 - Profit projections
 - Cash Flow analysis
 - 'What if' scenarios on the Financial Model to cover topside and downside variance.

- **Response:** This was not considered as this is regarded as a proposed variation to contract, as allowed for in the contract arrangement
- Assumptions and details of new/revised income streams.
- **Response:** The Head of L&ES and Contracts & Projects Manager have analysed SLL's proposed variation to contract.

This is a revenue item for the next 9 years and it is extremely important that we get it right, I am afraid that to date I have been less than impressed with how officers have undertaken financial reviews and analysis of such projects.

Response: Note that the contract was awarded to SLL, therefore they are in place now, so any works at NHLC need to happen with their involvement

If you are unable to provide such an assurance I would request that the capital spend be suspended until such time as a full analysis, as detailed above, has been completed.

Finally this is a substantial investment and we are exposed to a risk with the performance of SLL for the next 9 years, their management and structure. What risk assessment has been undertaken on this organisation? Do we have any concerns about their VAT status and is this likely to be challenged by HMRC with a consequential knock on to NHDC?

Response: SLL also taking a risk – that they cannot fill the facility. They won a competitive tender in 2013, so assessment of management/structure etc. took place then. Credit check (as of today) shows them to be in a healthy financial position.

Response: Not quite sure what the query about VAT is driving at
Profit share is exclusive of VAT.

Also note that we have agreed (NHDC, SLL and independent review by PWC) that the management fees are vat able . NHDC pay vat on these, but are then able to reclaim. This would not change, regardless of SLL vat status