



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**



Cabinet


18 January 2024

Report of Councillor Ashley Baxter,
Deputy Leader of the Council

Budget Framework Amendments 2023/2024

Report Author

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Purpose of Report

This report is seeking approval to make in-year amendments to the Budget Framework for the financial year 2023/2024.

Recommendations

That Cabinet:

1. **Recommends to Council for following budget amendments to the 2023/24 Budget Framework:**
 - **Increase to the Capital General Fund Decarbonisation Scheme contribution to £492,500.**
 - **Delegate to the Deputy Chief Executive in consultation with the Deputy Leader of the Council to accept the Phase 3c Public Sector Decarbonisation Scheme funding if the grant application is successful.**
 - **Provide an additional management fee of £123,000 to LeisureSK Limited for the current financial year only.**
2. **Notes the actions taken by the Council in response to the impact of Storm Henk in the South Kesteven District.**

3. Approves the following actions in response to the request from LeisureSK Ltd for additional funding for the current financial year:

- To request officers write to LeisureSK Ltd to request a mitigation and recovery plan for the financial years 2023/24 and 2024/25 in response to the management fee request with a view to seeking the level of management fee being requested reducing further for 2024/25.**
- To request that the Cabinet member for Finance and Cabinet member for Leisure receive regular detailed budget forecast reports from Leisure SK Ltd between now and end of financial year 2023/24.**
- To request an urgent independent assessment of the business plan and profit and loss account for the financial years 2023/24 and 2024/25 and propose any corrective action or mitigations that can be undertaken.**
- To initiate an independent assessment of the existing governance model and operational financial management controls to ensure they are fit for purpose and effective.**
- To note that an independent review of the VAT and taxation implications is underway.**
- To ask s151 Officer, on behalf of the Council, to undertake a review of the financial information, a review of the Board minutes and level of financial support being provided to Leisure SK Ltd and to recommend to Cabinet any corrective actions that may be required.**
- Accelerate the options appraisal for the future delivery model of SKDC's Leisure Services including insourcing and full market testing by tender with leisure providers. This to be undertaken within the shortest of timelines.**

Decision Information	
Is this a Key Decision?	No
Does the report contain any exempt or confidential information not for publication?	No
What are the relevant corporate priorities?	Growth and our economy Housing that meets the needs of all residents Healthy and strong communities Clean and sustainable environment High performing Council
Which wards are impacted?	Wards

1. Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance

- 1.1 The additional budget requests for this financial year as detailed in the report are not currently included in the 2023/24 approved Budget Framework. Should these proposals be supported then the additional funding for the Decarbonisation Fund contribution will be funded from the Local Priorities Reserve. In respect of the additional leisure management fee then the funding can be financed from the Budget Stabilisation Reserve or from the recently received Swimming Pool Support Fund.

Completed by: Richard Wyles, Deputy Chief Executive and s151 Officer

Legal and Governance

- 1.2 Any amendments to the Council's budget as recommended in this report requires the approval of Full Council.

Completed by: Mandy Braithwaite, Legal Executive

Climate Change

- 1.3 The allocation of funding to the decarbonisation scheme for Grantham Meres Leisure Centre would allow the Council to significantly reduce the energy consumption and carbon emissions from the site, if the bid is successful.

Completed by: Serena Brown, Sustainability and Climate Change Officer

2. Background to the Report

Decarbonisation Fund

- 2.1 South Kesteven District Council conducted an analysis of the Council's carbon emissions in 2020, including the operation of the leisure centres within the district. The carbon emissions arising from the centres were found to account for 41% of the Council's operational carbon emissions, representing the single largest area. This is principally a result of energy used for heating and hot water, as well as electricity to power the centres.
- 2.2 Grantham Meres Leisure Centre, as the largest centre in the district, has a number of facilities including a 25m pool, learner pool and two leisure pools, alongside a gym facility, exercise studios, sports hall and outdoor facilities including 3G football pitch and outdoor running track.
- 2.3 The Centre also has significant utility costs as a result of energy used on site. Under current tariff rates for gas and electricity, an annual cost of over £500k is anticipated for the main Centre for the 2023/2024 financial year.
- 2.4 A detailed energy review of the Council's leisure facilities was undertaken by LeisureSK Ltd in July 2023, providing an analysis of on-site energy consumption for each of the three centres operations and recommendations for various energy conservation measures and decarbonisation of heating systems.
- 2.5 To achieve a significant reduction in a centre's carbon emissions, all gas consumption for heating systems will need to be replaced. The predominant technology to facilitate this is heat pumps. The high efficiencies of electric heat pumps enable a, net reduction in energy consumption and carbon emissions. Nevertheless, as the technology is electrically powered and electricity remains around four times more expensive (per kWh) than gas, efforts need to be made to design a new system optimally to reduce running costs.
- 2.6 Phase 3 of the Public Sector Decarbonisation Scheme (PSDS), worth £1.425bn, was launched by Salix on behalf of the Department for Energy Security and Net Zero in 2021. Phase 3c has up to £230m available for 2024/2025.
- 2.7 Leisure Energy were commissioned to support the Council in developing a detailed application into PSDS, targeting the Grantham Meres Leisure Centre as the site with highest energy consumption. The focus of the bid is on complete removal of the existing gas boilers and Combined Heat and Power (CHP) units,

and installation of a new Air Source Heat Pump (ASHP) system with supporting design, infrastructure and project management.

- 2.8 Applicants are expected to provide a minimum co-funding contribution of at least 12% or equivalent to the cost of installing a new fossil fuel based heating system. The application developed includes only the measure of the new air source heat pump system and no other energy efficiency upgrades for the site.

Total grant funding request	£3,587,500
Applicant funding contribution	£492,500
TOTAL project value	£4,080,000

- 2.9 An application to phase 3C of PSDS was made in November 2023 for a total project value of £4,080,000. Applicants were advised to expect an announcement of the outcomes of bids in late January or February 2024, following technical review of all applications submitted.

- 2.10 An existing provision to support a decarbonisation scheme has been made for the 2023/24 budget. In order to support a successful application to phase 3C of PSDS, an additional contribution is required:

2023/24 decarbonisation scheme budget	£261,000
Total PSDS applicant contribution for successful bid	£492,500
Required increase to existing decarbonisation scheme	£231,500

LeisureSK Ltd

- 2.11 In the latter months of 2022, the Board of Directors of LeisureSK Ltd made the Council aware of the difficult trading conditions and the financial challenges being experienced. These were predominantly related to increased utility costs and staffing costs. Following consideration and recommendation by the Council's (then) Companies Committee on 1 December 2022, on 7 February 2023 Cabinet agreed to financially support LeisureSK Ltd by circa £500,000, all of which related to the forecast increase in utility costs which could not be offset by income generation (see **Background Papers**).
- 2.12 Leisure SK Limited presented a report to the Culture and Leisure Overview and Scrutiny Committee (OSC) on 30th November which confirmed there was a management fee requirement of £738,942 ([LeisureSK Ltd Management Fee Request 2024 2025 Report.pdf \(southkesteven.gov.uk\)](#)) for the current financial year (which is partly offset by the approved £500k fee). This projected deficit has since Increased to £772,949 and was included in the latest report to the OSC presented on 9 January 2024. This deficit is primarily due to the impact of utility costs, the amount of irrecoverable VAT, software and professional fees and minimum wage increases. This has led to LeisureSK Ltd requesting an additional management fee of £273k.

- 2.13 However LeisureSK Ltd has also formally requested that the additional fee is split into two parts to enable funds to be released to meet cashflow challenges in the short term. This is proposed split is: £123k as a budget amendment; and £150k as an immediate funding request. This latter is being dealt with as an 'Urgent Item' elsewhere on the Cabinet agenda.
- 2.14 Although the request for 2023/24 has increased, the request from LeisureSK Ltd for 2024/25 is set at £447k (and therefore lower than the current financial year) due to the following assumptions: an additional £238k of income expected from fitness and swimming activities and a projected utility cost decrease of £136k. Once these are accounted for, along with an expected staff costs increase of £129k, the result is a reduced overall deficit of £245k when compared to 2023/24.

Flood Response and Recovery Fund

- 2.15 The Chief Executive, in consultation with the Leader of the Council, published an Officer Delegation Report on 5th January 2024 to create a £35,000 Flood Response and Recovery Fund in order to ensure there are funds available to respond to the devastation caused by Storm Henk.
- 2.16 Parts of South Kesteven that were particularly affected from heavy flooding in the aftermath of Storm Henk were areas of Stamford, Greatford, Tallington, Corby Glen, Creeton, Little Bytham, Baston and an area to the west of the South Forty Foot Drain. At the time of compiling this report, 73 properties were reported as being affected by flooding of which 3 were within the Council's housing stock and 5 were local businesses.
- 2.17 The Council responded in a proactive way and the Chief Executive led the coordination of the response setting up a dedicated incident room to monitor the continuing impact of the storm and how it might be affecting communities in order to co-ordinate its response. The particular areas of activity and response have been:
- Council housing – 3 properties in Greatford were affected by internal flooding and those tenants were fully supported by housing colleagues including arranging temporary accommodation and regular ongoing welfare support.
 - Over 850 sandbags were ordered and delivered to the affected areas
 - 7 Portaloos were hired and delivered to the worst affected areas of Greatford and Tallington
 - 400 information leaflets were produced and hand delivered to residents that live in the worst affected areas
 - 5 businesses that were affected have been contacted and financial support will be given in accordance with the recently announced Government Flood Funding Scheme [Government payments for communities affected by flooding - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/government-flood-funding-scheme)

- Residents are being contacted in order to ensure they have the opportunity to apply for funds that have been made available by Government
 - 6 skips have been hired and issued to worst affected areas to allow residents to dispose of damaged personal items.
 - The setting up and hosting 2 rest centres in the worst affected areas
- 2.18 At the time of compiling this report the incurred and ongoing committed costs were being collated: some of these are direct new costs and some of these are existing costs that have been diverted to respond to the urgent matters. This report confirms that a one-off fund of £35k has been made available and will be the primary source to fund the activities that are summarised above.
- 2.19 The Council continues to undertake responsive works to those affected communities and is liaising directly with ward members, Parish Councils and those residents and businesses directly impacted to ensure the response is comprehensive.

3. Key Considerations

- 3.1 Leisure SK Ltd - The main driver for the establishment of LeisureSK Limited was to secure the ongoing provision of leisure across the District. Without the requested increase to the management fee, LeisureSK Limited will suffer cashflow problems and may need to cease trading, resulting in the loss of leisure provision across South Kesteven. This may also have implications on funding awarded by the Swimming Pool Support Fund of £344k, with the risk of the Council having to repay funding awarded. Therefore, the 'do nothing' option has been discounted.
- 3.2 There are no other key considerations that are relevant to the other items in the report.

4. Other Options Considered

- 4.1 LeisureSK Ltd - Councils receive no dedicated funding from Government to provide sports and leisure services and facilities. Without the requested additional funding, the Council could decide to close some or all of the leisure centres.
- 4.2 As the current contract with LeisureSK Limited is nearing the end of its period a thorough options appraisal will be undertaken to establish the most appropriate delivery model going forwards.

5. Reasons for the Recommendations

- 5.1 The Council is required to provide match funding of £492,500 for the Decarbonisation Fund application so creating this budget provision will ensure that the Council is able to accept the funding if the bid is successful.
- 5.2 The allocation of an additional management fee to LeisureSK Ltd will ensure that the Company can continue to operate.

6. Background Papers

- 6.1 *Swimming Pool Support Fund (Phase One – Revenue)* – Report to Cabinet, published 7 November 2023, available online at:
<https://moderngov.southkesteven.gov.uk/documents/s39436/SPSF.pdf>
- 6.2 *Budget Proposals for 2023/24 and indicative budgets for 2024/2025 and 2025/26* – Report to Cabinet, published 7 December 2023 and available online at:
<https://moderngov.southkesteven.gov.uk/documents/s36830/Cabinet%20Budget%20Report%202324.pdf>